



Encana Corporation

Consolidated Financial Statements

For the Year Ended December 31, 2010

(Prepared in U.S. Dollars)

Management Report

Management's Responsibility for Consolidated Financial Statements

The accompanying Consolidated Financial Statements of Encana Corporation (the "Company") are the responsibility of Management. The Consolidated Financial Statements have been prepared by Management in United States dollars in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect Management's best judgments. Financial information contained throughout the annual report is consistent with these financial statements.

The Company's Board of Directors has approved the information contained in the Consolidated Financial Statements. The Board of Directors fulfills its responsibility regarding the financial statements mainly through its Audit Committee, which has a written mandate that complies with the current requirements of Canadian securities legislation and the United States Sarbanes-Oxley Act of 2002 and voluntarily complies, in principle, with the Audit Committee guidelines of the New York Stock Exchange. The Audit Committee meets at least on a quarterly basis.

Management's Assessment of Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system was designed to provide reasonable assurance to the Company's Management regarding the preparation and presentation of the Consolidated Financial Statements.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the design and effectiveness of the Company's internal control over financial reporting as at December 31, 2010. In making its assessment, Management has used the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of the Company's internal control over financial reporting. Based on our evaluation, Management has concluded that the Company's internal control over financial reporting was effectively designed and operating effectively as at that date.

PricewaterhouseCoopers LLP, an independent firm of chartered accountants, was appointed by a vote of shareholders at the Company's last annual meeting to audit and provide independent opinions on both the Consolidated Financial Statements and the Company's internal control over financial reporting as at December 31, 2010, as stated in their Auditor's Report. PricewaterhouseCoopers LLP has provided such opinions.

(signed)
Randall K. Eresman
President &
Chief Executive Officer

(signed)
Sherri A. Brillon
Executive Vice-President &
Chief Financial Officer

February 16, 2011

Auditor's Report

To the Shareholders of Encana Corporation

We have completed integrated audits of Encana Corporation's 2010, 2009 and 2008 consolidated financial statements and its internal control over financial reporting as at December 31, 2010. Our opinions, based on our audits, are presented below.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Encana Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2010, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Encana Corporation as at December 31, 2010 and 2009 and the results of its operations and cash flows for each of the three years in the period ended December 31, 2010 in accordance with Canadian generally accepted accounting principles.

Report on internal control over financial reporting

We have also audited Encana Corporation's internal control over financial reporting as at December 31, 2010, based on criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Management's responsibility for internal control over financial reporting

Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control over Financial Reporting.

Auditor's responsibility

Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the company's internal control over financial reporting.

Definition of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Canadian generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent limitations

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, Encana Corporation maintained, in all material respects, effective internal control over financial reporting as at December 31, 2010 based on criteria established in Internal Control — Integrated Framework, issued by COSO.

(signed)

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta, Canada

February 16, 2011

Consolidated Statement of Earnings

| For the years ended December 31 (US\$ millions, except per share amounts) | | 2010 | 2009 | 2008 |
|---|-----------|----------|-----------|-----------|
| Revenues, Net of Royalties | (Note 4) | \$ 8,870 | \$ 11,114 | \$ 21,053 |
| Expenses | (Note 4) | | | |
| Production and mineral taxes | | 217 | 171 | 478 |
| Transportation | | 859 | 1,280 | 1,704 |
| Operating | | 1,061 | 1,627 | 1,983 |
| Purchased product | | 739 | 1,460 | 2,426 |
| Depreciation, depletion and amortization | | 3,242 | 3,704 | 4,035 |
| Administrative | | 359 | 477 | 447 |
| Interest, net | (Note 7) | 501 | 405 | 402 |
| Accretion of asset retirement obligation | (Note 13) | 46 | 71 | 77 |
| Foreign exchange (gain) loss, net | (Note 8) | (216) | (22) | 423 |
| (Gain) loss on divestitures | (Note 6) | 2 | 2 | (141) |
| | | 6,810 | 9,175 | 11,834 |
| Net Earnings Before Income Tax | | 2,060 | 1,939 | 9,219 |
| Income tax expense | (Note 9) | 561 | 109 | 2,720 |
| Net Earnings From Continuing Operations | | 1,499 | 1,830 | 6,499 |
| Net Earnings (Loss) From Discontinued Operations | (Note 5) | - | 32 | (555) |
| Net Earnings | | \$ 1,499 | \$ 1,862 | \$ 5,944 |
| Net Earnings From Continuing Operations per Common Share | (Note 15) | | | |
| Basic | | \$ 2.03 | \$ 2.44 | \$ 8.66 |
| Diluted | | \$ 2.03 | \$ 2.44 | \$ 8.64 |
| Net Earnings per Common Share | (Note 15) | | | |
| Basic | | \$ 2.03 | \$ 2.48 | \$ 7.92 |
| Diluted | | \$ 2.03 | \$ 2.48 | \$ 7.91 |

Consolidated Statement of Comprehensive Income

| For the years ended December 31 (US\$ millions) | | 2010 | 2009 | 2008 |
|---|--|----------|----------|----------|
| Net Earnings | | \$ 1,499 | \$ 1,862 | \$ 5,944 |
| Other Comprehensive Income, Net of Tax | | | | |
| Foreign Currency Translation Adjustment | | 296 | 2,018 | (2,230) |
| Comprehensive Income | | \$ 1,795 | \$ 3,880 | \$ 3,714 |

See accompanying Notes to Consolidated Financial Statements

Consolidated Balance Sheet

| As at December 31 (US\$ millions) | | 2010 | 2009 |
|---|---------------|------------------|------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | | \$ 629 | \$ 4,275 |
| Accounts receivable and accrued revenues | | 1,103 | 1,180 |
| Risk management | (Note 17) | 729 | 328 |
| Income tax receivable | | 390 | - |
| Inventories | | 3 | 12 |
| | | 2,854 | 5,795 |
| Property, Plant and Equipment, net | (Notes 4, 10) | 28,701 | 26,173 |
| Investments and Other Assets | (Note 11) | 235 | 164 |
| Risk Management | (Note 17) | 505 | 32 |
| Goodwill | (Note 4) | 1,725 | 1,663 |
| | (Note 4) | \$ 34,020 | \$ 33,827 |
| Liabilities and Shareholders' Equity | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | | \$ 2,211 | \$ 2,143 |
| Income tax payable | | - | 1,776 |
| Risk management | (Note 17) | 65 | 126 |
| Current portion of long-term debt | (Note 12) | 500 | 200 |
| | | 2,776 | 4,245 |
| Long-Term Debt | (Note 12) | 7,129 | 7,568 |
| Other Liabilities | (Note 4) | 1,730 | 1,185 |
| Risk Management | (Note 17) | 8 | 42 |
| Asset Retirement Obligation | (Note 13) | 820 | 787 |
| Future Income Taxes | (Note 9) | 4,230 | 3,386 |
| | | 16,693 | 17,213 |
| Commitments and Contingencies | (Note 19) | | |
| Shareholders' Equity | | | |
| Share capital | (Note 15) | 2,319 | 2,360 |
| Paid in surplus | (Note 15) | - | 6 |
| Retained earnings | | 13,957 | 13,493 |
| Accumulated other comprehensive income | | 1,051 | 755 |
| Total Shareholders' Equity | | 17,327 | 16,614 |
| | | \$ 34,020 | \$ 33,827 |

See accompanying Notes to Consolidated Financial Statements

Approved by the Board

(signed)
David P. O'Brien
 Director

(signed)
Jane L. Peverett
 Director

Consolidated Statement of Shareholders' Equity

| For the years ended December 31 (US\$ millions) | 2010 | 2009 | 2008 |
|--|------------------|------------------|------------------|
| Share Capital | | | |
| Balance, Beginning of Year | \$ 2,360 | \$ 4,557 | \$ 4,479 |
| Common Shares Issued under Option Plans (Note 15) | 5 | 5 | 80 |
| Common Shares Issued from PSU Trust (Note 15) | - | 19 | - |
| Stock-Based Compensation (Note 15) | 2 | 1 | 11 |
| Common Shares Purchased (Note 15) | (48) | - | (13) |
| Common Shares Cancelled (Note 3) | - | (4,582) | - |
| New Encana Common Shares Issued (Note 3) | - | 2,360 | - |
| Encana Special Shares Issued (Note 3) | - | 2,222 | - |
| Encana Special Shares Cancelled (Note 3) | - | (2,222) | - |
| Balance, End of Year | \$ 2,319 | \$ 2,360 | \$ 4,557 |
| Paid in Surplus | | | |
| Balance, Beginning of Year | \$ 6 | \$ - | \$ 80 |
| Common Shares Issued from PSU Trust (Note 15) | - | 6 | - |
| Stock-Based Compensation | - | - | 1 |
| Common Shares Purchased (Note 15) | (6) | - | - |
| Common Shares Distributed under Incentive Compensation Plans | - | - | (81) |
| Balance, End of Year | \$ - | \$ 6 | \$ - |
| Retained Earnings | | | |
| Balance, Beginning of Year | \$ 13,493 | \$ 17,584 | \$ 13,082 |
| Net Earnings | 1,499 | 1,862 | 5,944 |
| Dividends on Common Shares | (590) | (1,051) | (1,199) |
| Charges for Normal Course Issuer Bid (Note 15) | (445) | - | (243) |
| Net Distribution to Cenovus Energy (Note 3) | - | (4,902) | - |
| Balance, End of Year | \$ 13,957 | \$ 13,493 | \$ 17,584 |
| Accumulated Other Comprehensive Income | | | |
| Balance, Beginning of Year | \$ 755 | \$ 833 | \$ 3,063 |
| Foreign Currency Translation Adjustment | 296 | 2,018 | (2,230) |
| Transferred to Cenovus Energy (Note 3) | - | (2,096) | - |
| Balance, End of Year | \$ 1,051 | \$ 755 | \$ 833 |
| Total Shareholders' Equity | \$ 17,327 | \$ 16,614 | \$ 22,974 |

See accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows

| For the years ended December 31 (US\$ millions) | 2010 | 2009 | 2008 |
|---|----------------|-----------------|----------------|
| Operating Activities | | | |
| Net earnings from continuing operations | \$ 1,499 | \$ 1,830 | \$ 6,499 |
| Depreciation, depletion and amortization | 3,242 | 3,704 | 4,035 |
| Future income taxes (Note 9) | 774 | (1,799) | 1,723 |
| Cash tax on sale of assets (Note 9) | - | - | 25 |
| Unrealized (gain) loss on risk management (Note 17) | (945) | 2,680 | (2,729) |
| Unrealized foreign exchange (gain) loss | (278) | (231) | 417 |
| Accretion of asset retirement obligation (Note 13) | 46 | 71 | 77 |
| (Gain) loss on divestitures (Note 6) | 2 | 2 | (141) |
| Other | 99 | 373 | (79) |
| Cash flow from discontinued operations | - | 149 | (441) |
| Net change in other assets and liabilities | (84) | 23 | (257) |
| Net change in non-cash working capital from continuing operations (Note 18) | (1,990) | (29) | (1,353) |
| Net change in non-cash working capital from discontinued operations | - | 1,100 | 1,210 |
| Cash From Operating Activities | 2,365 | 7,873 | 8,986 |
| Investing Activities | | | |
| Capital expenditures (Note 4) | (4,773) | (4,625) | (6,823) |
| Acquisitions (Note 6) | (733) | (263) | (1,174) |
| Proceeds from divestitures (Note 6) | 883 | 1,178 | 904 |
| Cash tax on sale of assets (Note 9) | - | - | (25) |
| Cash transferred on Split Transaction (Note 3) | - | (3,996) | - |
| Proceeds from notes receivable from Cenovus (Note 3) | - | 3,750 | - |
| Net change in investments and other | (80) | 337 | 311 |
| Net change in non-cash working capital from continuing operations (Note 18) | (26) | (50) | 34 |
| Discontinued operations | - | (1,137) | (769) |
| Cash (Used in) Investing Activities | (4,729) | (4,806) | (7,542) |
| Financing Activities | | | |
| Net issuance (repayment) of revolving long-term debt | - | (1,852) | (53) |
| Issuance of long-term debt | - | 496 | 723 |
| Issuance of Cenovus Notes (Note 3) | - | 3,468 | - |
| Repayment of long-term debt (Note 12) | (200) | (250) | (664) |
| Issuance of common shares (Note 15) | 5 | 24 | 80 |
| Purchase of common shares (Note 15) | (499) | - | (326) |
| Dividends on common shares | (590) | (1,051) | (1,199) |
| Cash From (Used in) Financing Activities | (1,284) | 835 | (1,439) |
| Foreign Exchange Gain (Loss) on Cash and Cash Equivalents Held in Foreign Currency | 2 | 19 | (33) |
| Increase (Decrease) in Cash and Cash Equivalents | (3,646) | 3,921 | (28) |
| Cash and Cash Equivalents, Beginning of Year | 4,275 | 354 | 382 |
| Cash and Cash Equivalents, End of Year | \$ 629 | \$ 4,275 | \$ 354 |
| Cash, End of Year | \$ 126 | \$ 218 | \$ 13 |
| Cash Equivalents, End of Year | 503 | 4,057 | 341 |
| Cash and Cash Equivalents, End of Year | \$ 629 | \$ 4,275 | \$ 354 |

Supplementary Cash Flow Information

(Note 18)

See accompanying Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Prepared using Canadian Generally Accepted Accounting Principles
All amounts in US\$ millions, unless otherwise indicated
For the year ended December 31, 2010

1. Summary of Significant Accounting Policies

In these Consolidated Financial Statements, unless otherwise indicated, all dollar amounts are expressed in United States (U.S.) dollars. Encana's functional currency is Canadian dollars; Encana has adopted the U.S. dollar as its reporting currency since most of its revenue is closely tied to the U.S. dollar and to facilitate a more direct comparison to other North American oil and gas companies. All references to US\$ or to \$ are to United States dollars and references to C\$ are to Canadian dollars.

Encana's continuing operations are in the business of the exploration for, the development of, and the production and marketing of natural gas, crude oil and natural gas liquids ("NGLs").

A) PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of Encana Corporation and its subsidiaries ("Encana" or the "Company"), and are presented in accordance with Canadian generally accepted accounting principles ("GAAP"). Information prepared in accordance with U.S. GAAP is included in Note 21.

Investments in jointly controlled assets, partnerships and unincorporated joint ventures carry on Encana's exploration, development and production and are accounted for using the proportionate consolidation method, whereby Encana's proportionate share of revenues, expenses, assets and liabilities are included in the accounts.

B) FOREIGN CURRENCY TRANSLATION

The accounts of self-sustaining operations are translated using the current rate method, whereby assets and liabilities are translated at period end exchange rates, while revenues and expenses are translated using average rates over the period. Translation gains and losses relating to the self-sustaining operations are included in accumulated other comprehensive income ("AOCI") as a separate component of shareholders' equity. As at December 31, 2010, AOCI solely includes foreign currency translation adjustments.

Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into its functional currency at the rates of exchange in effect at the period end date. Any gains or losses are recorded in the Consolidated Statement of Earnings.

C) MEASUREMENT UNCERTAINTY

The timely preparation of the Consolidated Financial Statements in conformity with Canadian GAAP requires that Management make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as of the date of the Consolidated Financial Statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

Amounts recorded for depreciation, depletion and amortization, asset retirement costs and obligations, and amounts used for ceiling test and impairment calculations are based on estimates of natural gas, crude oil and NGL reserves and future costs required to develop those reserves. By their nature, these estimates of reserves, including the estimates of future prices, costs and the related future cash flows, are subject to measurement uncertainty. Accordingly, the impact in the Consolidated Financial Statements of future periods could be material.

The estimated fair value of derivative instruments resulting in financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

Notes to Consolidated Financial Statements

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. As such, income taxes are subject to measurement uncertainty.

The amount of compensation expense accrued for long-term performance-based compensation arrangements is subject to Management's best estimate of whether or not the performance criteria will be met and what the ultimate payout will be.

The values of pension assets and obligations and the amount of pension costs charged to net earnings depend on certain actuarial and economic assumptions which, by their nature, are subject to measurement uncertainty.

D) REVENUE RECOGNITION

Revenues associated with the sales of Encana's natural gas, crude oil and NGLs are recognized when title passes from the Company to its customer. Realized gains and losses from the Company's natural gas and crude oil commodity price risk management activities are recorded in revenue when the contract is settled.

Market optimization revenues and purchased product are recorded on a gross basis when Encana takes title to product and has risks and rewards of ownership. Purchases and sales of products that are entered into in contemplation of each other with the same counterparty are recorded on a net basis. Revenues associated with the services provided where Encana acts as agent are recorded as the services are provided. Sales of electric power are recognized when power is provided to the customer.

Unrealized gains and losses from the Company's natural gas and crude oil commodity price risk management activities are recorded in revenue based on the fair value of the contracts at the end of the respective periods.

E) PRODUCTION AND MINERAL TAXES

Costs paid by Encana to non-mineral interest owners based on production of natural gas, crude oil and NGLs are recognized when the product is produced.

F) TRANSPORTATION COSTS

Costs paid by Encana for the transportation of natural gas, crude oil and NGLs, including diluent, are recognized when the product is delivered and the services provided.

G) EMPLOYEE BENEFIT PLANS

Encana accrues for its obligations under its employee benefit plans and the related costs, net of plan assets.

The cost of pensions and other post-employment benefits is actuarially determined using the projected benefit method based on length of service, and reflects Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected future health care costs. The expected return on plan assets is based on the fair value of those assets. The accrued benefit obligation is discounted using the market interest rate on high-quality corporate debt instruments as at the measurement date.

Pension expense for the defined benefit pension plan includes the cost of pension benefits earned during the current year, the interest cost on pension obligations, the expected return on pension plan assets, the amortization of the net transitional obligation, the amortization of adjustments arising from pension plan amendments and the amortization of the excess of the net actuarial gain or loss over 10 percent of the greater of the benefit obligation and the fair value of plan assets. Amortization is done on a straight-line basis over a period covering the expected average remaining service lives of employees covered by the plans.

Pension expense for the defined contribution pension plans is recorded as the benefits are earned by the employees covered by the plans.

Notes to Consolidated Financial Statements

H) INCOME TAXES

Encana follows the liability method of accounting for income taxes. Under this method, future income taxes are recorded for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted, with the adjustment being recognized in net earnings in the period that the change occurs.

I) EARNINGS PER SHARE AMOUNTS

Basic net earnings per common share is computed by dividing the net earnings by the weighted average number of common shares outstanding during the period. Diluted net earnings per common share amounts are calculated giving effect to the potential dilution that would occur if stock options, without tandem share appreciation rights attached, were exercised or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options without tandem share appreciation rights attached and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options without tandem share appreciation rights attached are used to repurchase common shares at the average market price.

J) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include short-term investments, such as money market deposits or similar type instruments, with a maturity of three months or less when purchased.

K) PROPERTY, PLANT AND EQUIPMENT

UPSTREAM

Encana accounts for natural gas and crude oil properties in accordance with the Canadian Institute of Chartered Accountants' ("CICA") guideline on full cost accounting in the oil and gas industry. Under this method, all costs, including internal costs and asset retirement costs, directly associated with the acquisition of, the exploration for, and the development of natural gas, crude oil and NGL reserves are capitalized on a country-by-country cost centre basis.

Costs accumulated within each cost centre are depleted using the unit-of-production method based on estimated proved reserves determined using estimated future prices and costs. For purposes of this calculation, oil is converted to gas on an energy equivalent basis. Capitalized costs subject to depletion include estimated future costs to be incurred in developing proved reserves. Proceeds from the divestiture of properties are normally deducted from the full cost pool without recognition of gain or loss unless that deduction would result in a change to the rate of depletion of 20 percent or greater, in which case a gain or loss is recorded. Costs of major development projects and costs of acquiring and evaluating significant unproved properties are excluded, on a cost centre basis, from the costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or impairment has occurred. Costs that have been impaired are included in the costs subject to depletion.

An impairment loss is recognized in net earnings when the carrying amount of a cost centre is not recoverable. The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than the carrying amount, the impairment loss is measured as the amount by which the carrying amount exceeds the sum of:

- i) the fair value of proved and probable reserves; and
- ii) the costs of unproved properties that have been subject to a separate impairment test.

Notes to Consolidated Financial Statements

MARKET OPTIMIZATION

Midstream facilities, including power generation facilities, are carried at cost and depreciated on a straight-line basis over the estimated service lives of the assets, which range from 20 to 25 years.

CORPORATE

Costs associated with office furniture, fixtures, leasehold improvements, information technology and aircraft are carried at cost and depreciated on a straight-line basis over the estimated service lives of the assets, which range from three to 25 years. Assets under construction are not subject to depreciation until put into use. Land is carried at cost.

L) CAPITALIZATION OF COSTS

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

Interest is capitalized during the construction phase of large capital projects.

M) GOODWILL

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is assessed for impairment at least annually as at December 31 of each year. Goodwill and all other assets and liabilities have been allocated to the country cost centre levels, referred to as reporting units. To assess impairment, the fair value of each reporting unit is determined and compared to the book value of the reporting unit. If the fair value of the reporting unit is less than the book value, then a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the reporting unit's assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impairment amount.

N) ASSET RETIREMENT OBLIGATION

The fair value of estimated asset retirement obligations is recognized in the Consolidated Balance Sheet when incurred and a reasonable estimate of fair value can be made.

Asset retirement obligations include those legal obligations where the Company will be required to retire tangible long-lived assets such as producing well sites, offshore production platforms and natural gas processing plants. The asset retirement cost, equal to the initially estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. Changes in the estimated obligation resulting from revisions to estimated timing or amount of undiscounted cash flows are recognized as a change in the asset retirement obligation and the related asset retirement cost.

Amortization of asset retirement costs are included in depreciation, depletion and amortization in the Consolidated Statement of Earnings. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in the Consolidated Statement of Earnings.

Actual expenditures incurred are charged against the accumulated obligation.

O) STOCK-BASED COMPENSATION

Obligations for payments of cash or common shares under Encana's share appreciation rights, stock options with tandem share appreciation rights attached, deferred share and performance share unit plans are accrued as compensation costs over the vesting period using the intrinsic value method.

Notes to Consolidated Financial Statements

Obligations for payments for share options of Cenovus Energy Inc. (“Cenovus”) held by Encana employees are accrued as compensation costs based on the fair value of the financial liability.

Fluctuations in the underlying common share prices change the accrued compensation cost and are recognized when they occur.

P) FINANCIAL INSTRUMENTS

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale”, “held-to-maturity”, “loans and receivables”, or “other financial liabilities” as defined by the accounting standard.

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values recognized in other comprehensive income (“OCI”). Financial assets “held-to-maturity”, “loans and receivables” and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization.

Cash and cash equivalents, accounts receivable and accounts payable relating to share options of Encana held by Cenovus employees, and accounts payable for share options of Cenovus held by Encana employees are designated as “held-for-trading” and are measured at fair value.

With the exception of accounts receivable relating to share options of Encana held by Cenovus employees, accounts receivable and accrued revenues are designated as “loans and receivables”.

With the exception of accounts payable relating to share options of Encana held by Cenovus employees and accounts payable relating to share options of Cenovus held by Encana employees, accounts payable and accrued liabilities and long-term debt are designated as “other financial liabilities”.

Encana capitalizes long-term debt transaction costs, premiums and discounts. These costs are capitalized within long-term debt and amortized using the effective interest method.

RISK MANAGEMENT ASSETS AND LIABILITIES

Risk management assets and liabilities are derivative financial instruments classified as “held-for-trading” unless designated for hedge accounting. Derivative instruments that do not qualify for hedge accounting, or are not designated as hedges for accounting purposes, are recorded at fair value whereby instruments are recorded in the Consolidated Balance Sheet as either an asset or liability with changes in fair value recognized in net earnings. Realized gains or losses from financial derivatives related to natural gas and crude oil commodity prices are recognized in natural gas and crude oil revenues as the contracts are settled. Realized gains or losses from financial derivatives related to power commodity prices are recognized in operating costs as the related power contracts are settled. Unrealized gains and losses are recognized at the end of each respective reporting period based on the changes in fair value of the contracts. The estimated fair value of all derivative instruments is based on quoted market prices or, in their absence, third-party market indications and forecasts.

Derivative financial instruments are used by Encana to manage economic exposure to market risks relating to commodity prices, foreign currency exchange rates and interest rates. The Company’s policy is not to utilize derivative financial instruments for speculative purposes.

Encana has in place policies and procedures with respect to the required documentation and approvals for the use of derivative financial instruments and specifically ties their use, in the case of commodities, to the mitigation of market price risk associated with cash flows expected to be generated from budgeted capital programs, and in other cases to the mitigation of market price risks for specific assets and obligations. When applicable, the Company identifies relationships between financial instruments and anticipated transactions, as well as its risk

Notes to Consolidated Financial Statements

management objective and the strategy for undertaking the economic hedge transaction. Where specific financial instruments are executed, the Company assesses, both at the time of purchase and on an ongoing basis, whether the financial instrument used in the particular transaction is effective in offsetting changes in fair values or cash flows of the transaction.

Q) RECLASSIFICATION

Certain information provided for prior years has been reclassified to conform to the presentation adopted in 2010.

2. Changes in Accounting Policies and Practices

New Accounting Standards Adopted

On January 1, 2010, Encana adopted the following CICA Handbook sections:

- "Business Combinations", Section 1582, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard has had no material impact on the accounting treatment of business combinations entered into after January 1, 2010.
- "Consolidated Financial Statements", Section 1601, which, together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard has had no material impact on Encana's Consolidated Financial Statements.
- "Non-controlling Interests", Section 1602, which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard has had no material impact on Encana's Consolidated Financial Statements.

The above CICA Handbook sections are converged with International Financial Reporting Standards ("IFRS").

International Financial Reporting Standards

Effective January 1, 2011, the Company will be required to report its Consolidated Financial Statements in accordance with IFRS, including 2010 comparative information. Encana is in the final stages of its IFRS changeover plan and expects to report its first quarter 2011 results in accordance with IFRS in April 2011. Based on current International standards, Encana expects the transition to IFRS will not have a major impact on the Company's operations, strategic decisions and cash flows.

3. Split Transaction

On November 30, 2009, Encana completed a corporate reorganization (the "Split Transaction") to split into two independent publicly traded energy companies – Encana Corporation, a natural gas company, and Cenovus Energy Inc., an integrated oil company.

Under the Split Transaction, Encana shareholders received one new Encana common share and one Encana special share in exchange for each Encana common share previously held. The book value of Encana's

Notes to Consolidated Financial Statements

outstanding common shares immediately prior to the Split Transaction was attributed to the new Encana common shares and the Encana special shares in direct proportion to the weighted average trading price of the shares on a "when issued" basis. In accordance with the calculation, the value attributed to the new Encana common shares and the Encana special shares was \$2,360 million and \$2,222 million, respectively. The Encana special shares were subsequently exchanged by Encana shareholders for common shares of Cenovus, thereby effecting the Split Transaction.

Under the Split Transaction, Encana's downstream refining operations and certain upstream oil and gas assets were transferred to Cenovus. The historical results associated with the upstream assets transferred are reported as continuing operations in accordance with full cost accounting requirements (See Note 4). The historical results associated with the downstream refining operations have been presented as discontinued operations (See Note 5).

In conjunction with the proposed reorganization, on September 18, 2009, Cenovus completed a private offering of senior unsecured notes for an aggregate principal amount of \$3,500 million. The net proceeds from the private offering of \$3,468 million were held in escrow until the Split Transaction was completed. The unsecured notes ("Cenovus Notes") were transferred under the Split Transaction.

The following table presents the net assets transferred to Cenovus at book value under the Split Transaction on November 30, 2009.

Net Assets Transferred Under the Split Transaction

| | |
|--|-----------------------|
| Assets | |
| Cash and restricted cash | \$ 3,996 |
| Property, plant and equipment, net | |
| Oil and gas | 9,329 |
| Downstream refining (See Note 5) | 4,710 |
| Partnership contribution receivable, including current portion | 2,835 |
| Goodwill | 1,083 |
| Other current and non-current assets | 2,094 |
| | <hr/> 24,047 |
| Liabilities | |
| Notes payable to Encana | 3,750 |
| Cenovus Notes | 3,436 |
| Partnership contribution payable, including current portion | 2,857 |
| Future income taxes | 2,314 |
| Other current and non-current liabilities | 2,470 |
| | <hr/> 14,827 |
| Net Assets Transferred Under the Split Transaction | <hr/> \$ 9,220 |

The Split Transaction reduced total shareholders' equity by \$9,220 million, reflected as a reduction in share capital of \$2,222 million, a reduction in retained earnings of \$4,902 million and a reduction in AOCI of \$2,096 million.

Following the Split Transaction, Encana received amounts due from Cenovus of approximately \$3.75 billion.

Notes to Consolidated Financial Statements

4. Segmented Information

The Company's operating and reportable segments are as follows:

- **Canada** includes the Company's exploration for, development of, and production of natural gas, crude oil and NGLs and other related activities within the Canadian cost centre.
- **USA** includes the Company's exploration for, development of, and production of natural gas, NGLs and other related activities within the U.S. cost centre.
- **Market Optimization** is primarily responsible for the sale of the Company's proprietary production. These results are included in the Canada and USA segments. Market optimization activities include third-party purchases and sales of product that provide operational flexibility for transportation commitments, product type, delivery points and customer diversification. These activities are reflected in the Market Optimization segment.
- **Corporate and Other** mainly includes unrealized gains or losses recorded on derivative financial instruments. Once amounts are settled, the realized gains and losses are recorded in the operating segment to which the derivative instrument relates.

Market Optimization markets substantially all of the Company's upstream production to third-party customers. Transactions between segments are based on market values and eliminated on consolidation. The tables in this note present financial information on an after eliminations basis.

Encana has a decentralized decision-making and reporting structure. Accordingly, the Company reports its divisional results as follows:

- **Canadian Division**, which includes natural gas exploration, development and production assets located in British Columbia and Alberta, as well as the Deep Panuke natural gas project offshore Nova Scotia. Four key resource plays are located in the Division: (i) Greater Sierra in northeast British Columbia, including Horn River; (ii) Cutbank Ridge in Alberta and British Columbia, including Montney; (iii) Bighorn in west central Alberta; and (iv) Coalbed Methane in southern Alberta.
- **USA Division**, which includes the natural gas exploration, development and production assets located in the U.S. Five key resource plays are located in the Division: (i) Jonah in southwest Wyoming; (ii) Piceance in northwest Colorado; (iii) East Texas in Texas; (iv) Haynesville in Louisiana and Texas; and (v) Fort Worth in Texas.
- **Canada – Other** includes the combined results from the former Canadian Plains Division and Integrated Oil – Canada.

Comparative results presented prior to the November 30, 2009 Split Transaction include the results of operations from assets transferred to Cenovus. The former Canadian Plains and Integrated Oil – Canada upstream operations are presented as Canada – Other within continuing operations. The former Integrated Oil Downstream Refining operations are reported as discontinued operations as disclosed in Note 5.

Notes to Consolidated Financial Statements

Results of Continuing Operations

Segment and Geographic Information

| For the years ended December 31 | Canada | | | USA | | | Market Optimization | | |
|--|-----------------|----------|-----------|-----------------|----------|----------|---------------------|----------|----------|
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| Revenues, Net of Royalties | \$ 2,829 | \$ 7,585 | \$ 10,050 | \$ 4,275 | \$ 4,537 | \$ 5,629 | \$ 797 | \$ 1,607 | \$ 2,655 |
| Expenses | | | | | | | | | |
| Production and mineral taxes | 8 | 53 | 108 | 209 | 118 | 370 | - | - | - |
| Transportation | 197 | 750 | 1,202 | 662 | 530 | 502 | - | - | - |
| Operating | 561 | 1,118 | 1,333 | 468 | 434 | 618 | 33 | 26 | 45 |
| Purchased product | - | (85) | (151) | - | - | - | 739 | 1,545 | 2,577 |
| | 2,063 | 5,749 | 7,558 | 2,936 | 3,455 | 4,139 | 25 | 36 | 33 |
| Depreciation, depletion and amortization | 1,242 | 1,980 | 2,198 | 1,912 | 1,561 | 1,691 | 11 | 20 | 15 |
| Segment Income (Loss) | \$ 821 | \$ 3,769 | \$ 5,360 | \$ 1,024 | \$ 1,894 | \$ 2,448 | \$ 14 | \$ 16 | \$ 18 |

| | Corporate & Other | | | Consolidated | | |
|--|-------------------|-----------|----------|-----------------|-----------|-----------|
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| Revenues, Net of Royalties | \$ 969 | \$(2,615) | \$ 2,719 | \$ 8,870 | \$ 11,114 | \$ 21,053 |
| Expenses | | | | | | |
| Production and mineral taxes | - | - | - | 217 | 171 | 478 |
| Transportation | - | - | - | 859 | 1,280 | 1,704 |
| Operating | (1) | 49 | (13) | 1,061 | 1,627 | 1,983 |
| Purchased product | - | - | - | 739 | 1,460 | 2,426 |
| | 970 | (2,664) | 2,732 | 5,994 | 6,576 | 14,462 |
| Depreciation, depletion and amortization | 77 | 143 | 131 | 3,242 | 3,704 | 4,035 |
| Segment Income (Loss) | \$ 893 | \$(2,807) | \$ 2,601 | 2,752 | 2,872 | 10,427 |
| Administrative | | | | 359 | 477 | 447 |
| Interest, net | | | | 501 | 405 | 402 |
| Accretion of asset retirement obligation | | | | 46 | 71 | 77 |
| Foreign exchange (gain) loss, net | | | | (216) | (22) | 423 |
| (Gain) loss on divestitures | | | | 2 | 2 | (141) |
| | | | | 692 | 933 | 1,208 |
| Net Earnings Before Income Tax | | | | 2,060 | 1,939 | 9,219 |
| Income tax expense | | | | 561 | 109 | 2,720 |
| Net Earnings From Continuing Operations | | | | \$ 1,499 | \$ 1,830 | \$ 6,499 |

Notes to Consolidated Financial Statements

Results of Continuing Operations

Product and Divisional Information

| For the years ended December 31 | Canada Segment | | | | | | | | |
|-----------------------------------|-------------------|-----------------|-----------------|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Canadian Division | | | Canada – Other * | | | Total | | |
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| Revenues, Net of Royalties | \$ 2,829 | \$ 3,362 | \$ 4,355 | \$ - | \$ 4,223 | \$ 5,695 | \$ 2,829 | \$ 7,585 | \$ 10,050 |
| Expenses | | | | | | | | | |
| Production and mineral taxes | 8 | 14 | 33 | - | 39 | 75 | 8 | 53 | 108 |
| Transportation | 197 | 154 | 239 | - | 596 | 963 | 197 | 750 | 1,202 |
| Operating | 561 | 536 | 609 | - | 582 | 724 | 561 | 1,118 | 1,333 |
| Purchased product | - | - | - | - | (85) | (151) | - | (85) | (151) |
| Operating Cash Flow | \$ 2,063 | \$ 2,658 | \$ 3,474 | \$ - | \$ 3,091 | \$ 4,084 | \$ 2,063 | \$ 5,749 | \$ 7,558 |

| For the years ended December 31 | Canadian Division | | | | | | | | |
|-----------------------------------|-------------------|-----------------|-----------------|---------------|---------------|---------------|--------------|--------------|--------------|
| | Gas | | | Oil & NGLs | | | Other | | |
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| Revenues, Net of Royalties | \$ 2,480 | \$ 3,041 | \$ 3,720 | \$ 305 | \$ 277 | \$ 578 | \$ 44 | \$ 44 | \$ 57 |
| Expenses | | | | | | | | | |
| Production and mineral taxes | 7 | 11 | 28 | 1 | 3 | 5 | - | - | - |
| Transportation | 194 | 148 | 201 | 3 | 6 | 12 | - | - | 26 |
| Operating | 531 | 501 | 549 | 16 | 21 | 39 | 14 | 14 | 21 |
| Operating Cash Flow | \$ 1,748 | \$ 2,381 | \$ 2,942 | \$ 285 | \$ 247 | \$ 522 | \$ 30 | \$ 30 | \$ 10 |

| | Total | | |
|-----------------------------------|-----------------|-----------------|-----------------|
| | 2010 | 2009 | 2008 |
| Revenues, Net of Royalties | \$ 2,829 | \$ 3,362 | \$ 4,355 |
| Expenses | | | |
| Production and mineral taxes | 8 | 14 | 33 |
| Transportation | 197 | 154 | 239 |
| Operating | 561 | 536 | 609 |
| Operating Cash Flow | \$ 2,063 | \$ 2,658 | \$ 3,474 |

* Includes the operations formerly known as the Canadian Plains Division and Integrated Oil – Canada.

Notes to Consolidated Financial Statements

Results of Continuing Operations

Product and Divisional Information

| For the years ended December 31 | USA Division | | | | | | | | |
|-----------------------------------|--------------|----------|----------|------------|--------|--------|----------|----------|----------|
| | Gas | | | Oil & NGLs | | | Other | | |
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| Revenues, Net of Royalties | \$ 3,912 | \$ 4,222 | \$ 4,934 | \$ 244 | \$ 201 | \$ 407 | \$ 119 | \$ 114 | \$ 288 |
| Expenses | | | | | | | | | |
| Production and mineral taxes | 185 | 100 | 334 | 24 | 18 | 36 | - | - | - |
| Transportation | 662 | 530 | 502 | - | - | - | - | - | - |
| Operating | 393 | 327 | 352 | - | - | - | 75 | 107 | 266 |
| Operating Cash Flow | \$ 2,672 | \$ 3,265 | \$ 3,746 | \$ 220 | \$ 183 | \$ 371 | \$ 44 | \$ 7 | \$ 22 |
| | | | | | | | Total | | |
| | | | | | | | 2010 | 2009 | 2008 |
| Revenues, Net of Royalties | | | | | | | \$ 4,275 | \$ 4,537 | \$ 5,629 |
| Expenses | | | | | | | | | |
| Production and mineral taxes | | | | | | | 209 | 118 | 370 |
| Transportation | | | | | | | 662 | 530 | 502 |
| Operating | | | | | | | 468 | 434 | 618 |
| Operating Cash Flow | | | | | | | \$ 2,936 | \$ 3,455 | \$ 4,139 |

| For the years ended December 31 | Canada – Other * | | | | | | | | |
|-----------------------------------|------------------|----------|----------|------------|----------|----------|-------|----------|----------|
| | Gas | | | Oil & NGLs | | | Other | | |
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| Revenues, Net of Royalties | \$ - | \$ 1,781 | \$ 2,301 | \$ - | \$ 2,287 | \$ 3,223 | \$ - | \$ 155 | \$ 171 |
| Expenses | | | | | | | | | |
| Production and mineral taxes | - | 15 | 36 | - | 23 | 38 | - | 1 | 1 |
| Transportation | - | 37 | 71 | - | 535 | 847 | - | 24 | 45 |
| Operating | - | 186 | 241 | - | 356 | 409 | - | 40 | 74 |
| Purchased product | - | - | - | - | - | - | - | (85) | (151) |
| Operating Cash Flow | \$ - | \$ 1,543 | \$ 1,953 | \$ - | \$ 1,373 | \$ 1,929 | \$ - | \$ 175 | \$ 202 |
| | | | | | | | Total | | |
| | | | | | | | 2010 | 2009 | 2008 |
| Revenues, Net of Royalties | | | | | | | \$ - | \$ 4,223 | \$ 5,695 |
| Expenses | | | | | | | | | |
| Production and mineral taxes | | | | | | | - | 39 | 75 |
| Transportation | | | | | | | - | 596 | 963 |
| Operating | | | | | | | - | 582 | 724 |
| Purchased product | | | | | | | - | (85) | (151) |
| Operating Cash Flow | | | | | | | \$ - | \$ 3,091 | \$ 4,084 |

* Includes the operations formerly known as the Canadian Plains Division and Integrated Oil – Canada.

Notes to Consolidated Financial Statements

Capital Expenditures (Continuing Operations)

| For the years ended December 31 | 2010 | 2009 | 2008 |
|---------------------------------|----------|----------|----------|
| Capital | | | |
| Canadian Division | \$ 2,211 | \$ 1,869 | \$ 2,459 |
| Canada – Other | - | 848 | 1,500 |
| Canada | 2,211 | 2,717 | 3,959 |
| USA | 2,499 | 1,821 | 2,682 |
| Market Optimization | 2 | 2 | 17 |
| Corporate & Other | 61 | 85 | 165 |
| | \$ 4,773 | \$ 4,625 | \$ 6,823 |

In 2007 and 2008, Encana acquired certain land and property in Louisiana and Texas. Three transactions were facilitated by unrelated parties. These unrelated parties held the majority of the assets in trust for the Company in anticipation of a qualifying like kind exchange for U.S. tax purposes for \$457 million, \$101 million and \$2.55 billion. During the six-month period following the transactions, each unrelated party represented an interest in a Variable Interest Entity whereby Encana was the primary beneficiary and consolidated the respective unrelated party. Upon completion of each arrangement, the assets were transferred to Encana.

Additions to Goodwill

There were no additions to goodwill during 2010 or 2009.

As a result of the Split Transaction, a portion of goodwill was transferred to Cenovus (See Note 3).

Property, Plant and Equipment and Total Assets by Segment

| As at December 31 | Property, Plant and Equipment | | Total Assets | |
|---------------------|-------------------------------|-----------|--------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Canada | \$ 13,193 | \$ 11,162 | \$ 14,823 | \$ 12,748 |
| USA | 13,963 | 13,929 | 15,154 | 14,962 |
| Market Optimization | 121 | 124 | 193 | 303 |
| Corporate & Other | 1,424 | 958 | 3,850 | 5,814 |
| Total | \$ 28,701 | \$ 26,173 | \$ 34,020 | \$ 33,827 |

In January 2008, Encana signed the contract for the design and construction of the Production Field Centre ("PFC") for the Deep Panuke project. As at December 31, 2010, Canada property, plant and equipment and total assets includes Encana's accrual to date of \$528 million (2009 – \$427 million) related to this offshore facility as an asset under construction.

In February 2007, Encana announced that it had entered into a 25-year lease agreement with a third-party developer for The Bow office project. As at December 31, 2010, Corporate and Other property, plant and equipment and total assets includes Encana's accrual to date of \$1,090 million (2009 – \$649 million) related to this office project as an asset under construction.

Corresponding liabilities for these projects are included in other liabilities in the Consolidated Balance Sheet. There is no effect on the Company's net earnings or cash flows related to the capitalization of The Bow office project or the Deep Panuke PFC.

For further information relating to the PFC and The Bow office project, refer to Note 19.

Notes to Consolidated Financial Statements

Goodwill, Property, Plant and Equipment and Total Assets by Geographic Region

| As at December 31 | Goodwill | | Property, Plant and Equipment | | Total Assets | |
|-------------------|-----------------|-----------------|-------------------------------|------------------|------------------|------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Canada | \$ 1,252 | \$ 1,190 | \$ 14,685 | \$ 12,181 | \$ 18,393 | \$ 18,682 |
| United States | 473 | 473 | 14,016 | 13,982 | 15,438 | 15,099 |
| Other Countries | - | - | - | 10 | 189 | 46 |
| Total | \$ 1,725 | \$ 1,663 | \$ 28,701 | \$ 26,173 | \$ 34,020 | \$ 33,827 |

Export Sales

Sales of natural gas, crude oil and NGLs produced or purchased in Canada delivered to customers outside of Canada were \$292 million (2009 – \$757 million; 2008 – \$1,874 million).

Major Customers

In connection with the marketing and sale of Encana's own and purchased natural gas and crude oil for the year ended December 31, 2010, the Company had one customer (2009 – one; 2008 – one), which individually accounted for more than 10 percent of Encana's consolidated revenues, net of royalties. Sales to this customer, which has an investment grade credit rating, were approximately \$1,055 million (2009 – \$1,755 million; 2008 – \$2,413 million).

5. Discontinued Operations

As a result of the Split Transaction described in Note 3, Encana transferred its Downstream Refining operations to Cenovus. These operations have been accounted for as discontinued operations. Downstream Refining focused on the refining of crude oil into petroleum and chemical products at two refineries located in the United States. These refineries were jointly owned with ConocoPhillips. There were no assets or liabilities related to discontinued operations as at December 31, 2010 and December 31, 2009.

CONSOLIDATED STATEMENT OF EARNINGS

The following table presents the effect of discontinued operations in the Consolidated Statement of Earnings:

| For the years ended December 31 | 2010 | 2009 | 2008 |
|--|-------------|--------------|-----------------|
| Revenues, Net of Royalties | \$ - | \$ 4,804 | \$ 9,011 |
| Expenses | | | |
| Operating | - | 416 | 492 |
| Purchased product | - | 4,070 | 8,760 |
| Depreciation, depletion and amortization | - | 173 | 188 |
| Administrative | - | 44 | 26 |
| Interest, net | - | 163 | 184 |
| Accretion of asset retirement obligation | - | 2 | 2 |
| Foreign exchange (gain) loss, net | - | 1 | - |
| (Gain) loss on divestitures | - | - | 1 |
| | - | 4,869 | 9,653 |
| Net Earnings (Loss) Before Income Tax | - | (65) | (642) |
| Income tax expense (recovery) | - | (97) | (87) |
| Net Earnings (Loss) From Discontinued Operations | \$ - | \$ 32 | \$ (555) |
| Net Earnings (Loss) From Discontinued Operations per Common Share | | | |
| Basic | \$ - | \$ 0.04 | \$ (0.74) |
| Diluted | \$ - | \$ 0.04 | \$ (0.73) |

Notes to Consolidated Financial Statements

6. Acquisitions and Divestitures

| For the years ended December 31 | 2010 | 2009 | 2008 |
|--|----------|----------|--------|
| Acquisitions | | | |
| Canadian Division | \$ 592 | \$ 190 | \$ 151 |
| Canada – Other | - | 3 | - |
| Canada | 592 | 193 | 151 |
| USA | 141 | 46 | 1,023 |
| Corporate & Other | - | 24 | - |
| Total Acquisitions | 733 | 263 | 1,174 |
| Divestitures | | | |
| Canadian Division | (288) | (1,000) | (400) |
| Canada – Other | - | (17) | (47) |
| Canada | (288) | (1,017) | (447) |
| USA | (595) | (73) | (251) |
| Corporate & Other | - | (88) | (206) |
| Total Divestitures | (883) | (1,178) | (904) |
| Net Acquisitions and Divestitures | \$ (150) | \$ (915) | \$ 270 |

ACQUISITIONS

Acquisitions in Canada and the USA include the purchase of various strategic lands and properties that complement existing assets within Encana's portfolio. In 2010, acquisitions were \$733 million (2009 – \$263 million; 2008 – \$1,174 million).

DIVESTITURES

Divestitures in Canada and the USA primarily include the sale of non-core oil and natural gas assets. In 2010, proceeds received on the sale of assets were \$883 million (2009 – \$1,178 million; 2008 – \$904 million).

Corporate and Other

In November 2009, the Company completed the sale of Senlac Oil Limited for cash consideration of \$83 million.

In September 2008, the Company completed the sale of its interests in Brazil for net proceeds of \$164 million, before closing adjustments, resulting in a gain on sale of \$124 million. After recording income tax of \$25 million, Encana recorded an after-tax gain of \$99 million.

7. Interest, Net

| For the years ended December 31 | 2010 | 2009 | 2008 |
|-----------------------------------|--------|--------|--------|
| Interest Expense – Long-Term Debt | \$ 485 | \$ 533 | \$ 556 |
| Interest Expense – Other | 29 | 40 | 49 |
| Interest Income* | (13) | (168) | (203) |
| | \$ 501 | \$ 405 | \$ 402 |

* In 2009 and 2008, Interest Income was primarily due to the Partnership Contribution Receivable which was transferred to Cenovus under the Split Transaction (See Note 3).

Notes to Consolidated Financial Statements

8. Foreign Exchange (Gain) Loss, Net

| For the years ended December 31 | 2010 | 2009 | 2008 |
|---|----------|----------|----------|
| Unrealized Foreign Exchange (Gain) Loss on: | | | |
| Translation of U.S. dollar debt issued from Canada | \$ (282) | \$ (978) | \$ 1,033 |
| Translation of U.S. dollar partnership contribution receivable issued from Canada * | - | 448 | (608) |
| Other Foreign Exchange (Gain) Loss on: | | | |
| Monetary revaluations and settlements | 66 | 508 | (2) |
| | \$ (216) | \$ (22) | \$ 423 |

* The Partnership Contribution Receivable was transferred to Cenovus under the Split Transaction (See Note 3).

9. Income Taxes

The provision for income taxes is as follows:

| For the years ended December 31 | 2010 | 2009 | 2008 |
|---------------------------------|----------|----------|----------|
| Current | | | |
| Canada | \$ (175) | \$ 1,623 | \$ 547 |
| United States | (49) | 279 | 407 |
| Other Countries | 11 | 6 | 43 |
| Total Current Tax | (213) | 1,908 | 997 |
| Future | 774 | (1,799) | 1,723 |
| | \$ 561 | \$ 109 | \$ 2,720 |

Included in current tax for 2008 is \$25 million related to the sale of assets in Brazil (See Note 6).

The following table reconciles income taxes calculated at the Canadian statutory rate with the actual income taxes:

| For the years ended December 31 | 2010 | 2009 | 2008 |
|--|----------|----------|----------|
| Net Earnings Before Income Tax | \$ 2,060 | \$ 1,939 | \$ 9,219 |
| Canadian Statutory Rate | 28.2% | 29.2% | 29.7% |
| Expected Income Tax | 581 | 566 | 2,734 |
| Effect on Taxes Resulting from: | | | |
| Statutory and other rate differences | 39 | (199) | 167 |
| Effect of legislative changes | 6 | - | - |
| International financing | (78) | (101) | (268) |
| Foreign exchange (gains) losses not included in net earnings | 6 | 20 | 47 |
| Non-taxable capital (gains) losses | (38) | (71) | 84 |
| Other | 45 | (106) | (44) |
| | \$ 561 | \$ 109 | \$ 2,720 |
| Effective Tax Rate | 27.2% | 5.6% | 29.5% |

The net future income tax liability consists of:

| As at December 31 | 2010 | 2009 |
|---|----------|----------|
| Future Tax Liabilities | | |
| Property, plant and equipment in excess of tax values | \$ 4,106 | \$ 3,420 |
| Timing of partnership items | - | 78 |
| Risk management | 374 | 75 |
| Future Tax Assets | | |
| Non-capital and net capital losses carried forward | (285) | (174) |
| Other | 35 | (13) |
| Net Future Income Tax Liability | \$ 4,230 | \$ 3,386 |

Notes to Consolidated Financial Statements

The approximate amounts of tax pools available are as follows:

| As at December 31 | 2010 | | 2009 | |
|-------------------|------|--------|------|--------|
| Canada | \$ | 8,086 | \$ | 7,393 |
| United States | | 6,200 | | 7,098 |
| | \$ | 14,286 | \$ | 14,491 |

Included in the above tax pools are \$978 million (2009 – \$691 million) related to non-capital and net capital losses available for carry forward to reduce taxable income in future years. The non-capital losses expire between 2015 and 2030.

10. Property, Plant and Equipment, Net

| As at December 31 | 2010 | | | 2009 | | |
|---------------------|-----------|-------------------|-----------|-----------|-------------------|-----------|
| | Cost | Accumulated DD&A* | Net | Cost | Accumulated DD&A* | Net |
| Canada | \$ 26,808 | \$ (13,615) | \$ 13,193 | \$ 22,872 | \$ (11,710) | \$ 11,162 |
| USA | 22,987 | (9,024) | 13,963 | 21,021 | (7,092) | 13,929 |
| Market Optimization | 227 | (106) | 121 | 214 | (90) | 124 |
| Corporate & Other | 1,937 | (513) | 1,424 | 1,396 | (438) | 958 |
| | \$ 51,959 | \$ (23,258) | \$ 28,701 | \$ 45,503 | \$ (19,330) | \$ 26,173 |

* Depreciation, depletion and amortization.

Canada and USA property, plant and equipment include internal costs directly related to exploration, development and construction activities of \$357 million (2009 – \$383 million). Costs classified as administrative expenses have not been capitalized as part of the capital expenditures.

Upstream costs in respect of significant unproved properties and major development projects are excluded from the country cost centre's depletable base. At the end of the year, these costs were:

| As at December 31 | 2010 | | 2009 | | 2008 |
|-------------------|------|-------|------|-------|----------|
| Canada | \$ | 1,868 | \$ | 1,814 | \$ 1,286 |
| United States | | 1,162 | | 1,304 | 3,501 |
| Other Countries | | - | | 10 | 10 |
| | \$ | 3,030 | \$ | 3,128 | \$ 4,797 |

The costs excluded from depletable costs in Other Countries represent costs related to unproved properties incurred in cost centres that are considered to be in the pre-production stage. There were no proved reserves in these cost centres. All costs in these cost centres were capitalized. Ultimate recoverability of these costs was dependent upon the finding of proved oil and natural gas reserves. For the year ended December 31, 2010, the Company completed its impairment review of pre-production cost centres and determined that \$10 million of costs should be charged to depreciation, depletion and amortization in the Consolidated Statement of Earnings (2009 – \$26 million; 2008 – \$38 million).

Notes to Consolidated Financial Statements

The prices used in the ceiling test evaluation of the Company's natural gas and crude oil reserves at December 31, 2010 reflect benchmark prices (Henry Hub, AECO, WTI, Mixed Sweet Blend at Edmonton) adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality as follows:

| | 2011 | 2012 | 2013 | 2014 | 2015 | Cumulative % Change to 2022 |
|---------------------------------|-------|-------|-------|-------|-------|-----------------------------------|
| Natural Gas (\$/Mcf) | | | | | | |
| Canada | 3.89 | 4.45 | 4.76 | 4.95 | 5.14 | 12% |
| United States | 4.29 | 4.88 | 5.22 | 5.31 | 5.48 | 13% |
| Crude Oil (\$/barrel) | | | | | | |
| Canada | 70.00 | 73.27 | 78.15 | 77.21 | 78.01 | (5)% |
| Natural Gas Liquids (\$/barrel) | | | | | | |
| Canada | 62.89 | 60.11 | 60.01 | 61.03 | 63.54 | (11)% |
| United States | 70.02 | 73.20 | 74.78 | 75.91 | 77.29 | (4)% |

11. Investments and Other Assets

| As at December 31 | 2010 | 2009 |
|--|--------|--------|
| Long-Term Receivable | \$ 80 | \$ 81 |
| Deferred Pension Plan and Savings Plan | 46 | 52 |
| Other | 109 | 31 |
| | \$ 235 | \$ 164 |

12. Long-Term Debt

| As at December 31 | Note | 2010 | 2009 |
|--------------------------------------|------|----------|----------|
| Canadian Dollar Denominated Debt | | | |
| Unsecured notes | A, B | \$ 1,257 | \$ 1,194 |
| U.S. Dollar Denominated Debt | | | |
| Unsecured notes | A, C | 6,400 | 6,600 |
| Total Debt Principal | G | 7,657 | 7,794 |
| Increase in Value of Debt Acquired | D | 50 | 52 |
| Debt Discounts and Transaction Costs | E | (78) | (78) |
| Current Portion of Long-Term Debt | F | (500) | (200) |
| | | \$ 7,129 | \$ 7,568 |

A) OVERVIEW

REVOLVING CREDIT AND TERM LOAN BORROWINGS

At December 31, 2010, Encana had in place a bank credit facility for C\$4.5 billion or its equivalent amount in U.S. dollars (\$4.5 billion). The facility, which matures in October 2012, is fully revolving up to maturity. The facility is extendable from time to time, but not more than once per year, for a period not longer than five years plus 90 days from the date of the extension request, at the option of the lenders and upon notice from Encana. The facility is unsecured and bears interest at either the lenders' rates for Canadian prime, U.S. base rate, Bankers' Acceptances, or LIBOR plus applicable margins.

At December 31, 2010, one of Encana's subsidiaries had in place a bank credit facility totaling \$565 million. The facility, which matures in February 2013, is guaranteed by Encana Corporation and is fully revolving up to maturity. The facility is extendable from time to time, but not more than once per year, for a period not longer than five years plus 90 days from the date of the extension request, at the option of the lenders and upon notice

Notes to Consolidated Financial Statements

from the subsidiary. This facility bears interest at either the lenders' U.S. base rate or LIBOR plus applicable margins.

Standby fees paid in 2010 relating to revolving credit and term loan agreements were approximately \$5 million (2009 – \$4 million; 2008 – \$4 million).

UNSECURED NOTES

Unsecured notes include medium-term notes and senior notes that are issued from time to time under trust indentures.

Encana has in place a debt shelf prospectus for Canadian unsecured medium-term notes in the amount of C\$2.0 billion. The shelf prospectus provides that debt securities in Canadian dollars or other foreign currencies may be issued from time to time in one or more series. Terms of the notes, including interest at either fixed or floating rates and maturity dates, are determined by reference to market conditions at the date of issue. The shelf prospectus was filed in May 2009 and expires in June 2011. At December 31, 2010, C\$2.0 billion (\$2.0 billion) of the shelf prospectus remained unutilized, the availability of which is dependent upon market conditions.

Encana has in place a debt shelf prospectus for U.S. unsecured notes in the amount of \$4.0 billion under the multijurisdictional disclosure system. The shelf prospectus provides that debt securities in U.S. dollars or other foreign currencies may be issued from time to time in one or more series. Terms of the notes, including interest at either fixed or floating rates and maturity dates, are determined by reference to market conditions at the date of issue. The shelf prospectus was filed in April 2010 and expires in May 2012. At December 31, 2010, \$4.0 billion of the shelf prospectus remained unutilized, the availability of which is dependent upon market conditions.

B) CANADIAN UNSECURED NOTES

| | C\$ Principal Amount | | 2010 | 2009 |
|----------------------------|----------------------|-------|----------|----------|
| 4.30% due March 12, 2012 | \$ | 500 | \$ 503 | \$ 478 |
| 5.80% due January 18, 2018 | | 750 | 754 | 716 |
| | \$ | 1,250 | \$ 1,257 | \$ 1,194 |

C) U.S. UNSECURED NOTES

| | 2010 | 2009 |
|-------------------------------|----------|----------|
| 7.65% due September 15, 2010 | \$ - | \$ 200 |
| 6.30% due November 1, 2011 | 500 | 500 |
| 4.75% due October 15, 2013 | 500 | 500 |
| 5.80% due May 1, 2014 | 1,000 | 1,000 |
| 5.90% due December 1, 2017 | 700 | 700 |
| 6.50% due May 15, 2019 | 500 | 500 |
| 8.125% due September 15, 2030 | 300 | 300 |
| 7.20% due November 1, 2031 | 350 | 350 |
| 7.375% due November 1, 2031 | 500 | 500 |
| 6.50% due August 15, 2034 | 750 | 750 |
| 6.625% due August 15, 2037 | 500 | 500 |
| 6.50% due February 1, 2038 | 800 | 800 |
| | \$ 6,400 | \$ 6,600 |

The 5.80% note due May 1, 2014 was issued by the Company's indirect wholly owned subsidiary, Encana Holdings Finance Corp. This note is fully and unconditionally guaranteed by Encana Corporation.

D) INCREASE IN VALUE OF DEBT ACQUIRED

Certain of the notes and debentures of the Company were acquired in business combinations and were accounted for at their fair value at the dates of acquisition. The difference between the fair value and the principal

Notes to Consolidated Financial Statements

amount of the debt is being amortized over the remaining life of the outstanding debt acquired, approximately 20 years.

E) DEBT DISCOUNTS AND TRANSACTION COSTS

Long-term debt transaction costs, premiums and discounts are capitalized within long-term debt and are being amortized using the effective interest method. During 2010, there were no transaction costs and discounts capitalized within long-term debt relating to the issuance of Canadian and U.S. unsecured notes (2009 – \$4 million).

F) CURRENT PORTION OF LONG-TERM DEBT

| | 2010 | 2009 |
|------------------------------|---------------|---------------|
| 7.65% due September 15, 2010 | \$ - | \$ 200 |
| 6.30% due November 1, 2011 | 500 | - |
| | \$ 500 | \$ 200 |

G) MANDATORY DEBT PAYMENTS

| | C\$ Principal Amount | US\$ Principal Amount | Total US\$ Equivalent |
|------------|-------------------------|--------------------------|--------------------------|
| 2011 | \$ - | \$ 500 | \$ 500 |
| 2012 | 500 | - | 503 |
| 2013 | - | 500 | 500 |
| 2014 | - | 1,000 | 1,000 |
| 2015 | - | - | - |
| Thereafter | 750 | 4,400 | 5,154 |
| Total | \$ 1,250 | \$ 6,400 | \$ 7,657 |

13. Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas assets:

| As at December 31 | 2010 | 2009 |
|--|---------------|---------------|
| Asset Retirement Obligation, Beginning of Year | \$ 787 | \$ 1,230 |
| Liabilities Incurred | 101 | 21 |
| Liabilities Settled | (26) | (52) |
| Liabilities Divested | (75) | (26) |
| Liabilities Transferred to Cenovus | - | (692) |
| Change in Estimated Future Cash Outflows | (38) | 74 |
| Accretion Expense | 46 | 71 |
| Foreign Currency Translation | 25 | 161 |
| Asset Retirement Obligation, End of Year | \$ 820 | \$ 787 |

The total undiscounted amount of estimated cash flows required to settle the obligation is \$4,696 million (2009 – \$3,792 million), which has been discounted at 6.27 percent (2009 – 6.38 percent). Most of these obligations are not expected to be paid for several years, or decades, in the future and will be funded from general Company resources at that time.

Notes to Consolidated Financial Statements

14. Capital Structure

The Company's capital structure consists of shareholders' equity plus debt, defined as long-term debt including the current portion. The Company's objectives when managing its capital structure are to:

- i) maintain financial flexibility to preserve Encana's access to capital markets and its ability to meet its financial obligations; and
- ii) finance internally generated growth, as well as potential acquisitions.

The Company monitors its capital structure and short-term financing requirements using non-GAAP financial metrics consisting of Debt to Capitalization and Debt to Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"). These metrics are measures of the Company's overall financial strength and are used to steward the Company's overall debt position.

Encana targets a Debt to Capitalization ratio of less than 40 percent. At December 31, 2010, Encana's Debt to Capitalization ratio was 31 percent (December 31, 2009 – 32 percent) calculated as follows:

| As at December 31 | 2010 | | 2009 | |
|-------------------------------------|------|------------|------|------------|
| Debt | \$ | 7,629 | \$ | 7,768 |
| Shareholders' Equity | | 17,327 | | 16,614 |
| Capitalization | \$ | 24,956 | \$ | 24,382 |
| Debt to Capitalization Ratio | | 31% | | 32% |

Encana targets a Debt to Adjusted EBITDA of less than 2.0 times. At December 31, 2010, Debt to Adjusted EBITDA was 1.4x (December 31, 2009 – 1.3x; December 31, 2008 – 0.6x) calculated on a trailing 12-month basis as follows:

| As at December 31 | 2010 | | 2009 | | 2008 | |
|--|------|-------------|------|-------------|------|-------------|
| Debt | \$ | 7,629 | \$ | 7,768 | \$ | 9,005 |
| Net Earnings from Continuing Operations | \$ | 1,499 | \$ | 1,830 | \$ | 6,499 |
| Add (deduct): | | | | | | |
| Interest, net | | 501 | | 405 | | 402 |
| Income tax expense | | 561 | | 109 | | 2,720 |
| Depreciation, depletion and amortization | | 3,242 | | 3,704 | | 4,035 |
| Accretion of asset retirement obligation | | 46 | | 71 | | 77 |
| Foreign exchange (gain) loss, net | | (216) | | (22) | | 423 |
| (Gain) loss on divestitures | | 2 | | 2 | | (141) |
| Adjusted EBITDA | \$ | 5,635 | \$ | 6,099 | \$ | 14,015 |
| Debt to Adjusted EBITDA | | 1.4x | | 1.3x | | 0.6x |

Encana has a long-standing practice of maintaining capital discipline, managing its capital structure and adjusting its capital structure according to market conditions to maintain flexibility while achieving the objectives stated above. To manage the capital structure, the Company may adjust capital spending, adjust dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt or repay existing debt.

The Company's capital management objectives, evaluation measures, definitions and targets have remained unchanged over the periods presented. Encana is subject to certain financial covenants in its credit facility agreements and is in compliance with all financial covenants.

Notes to Consolidated Financial Statements

15. Share Capital

AUTHORIZED

The Company is authorized to issue an unlimited number of common shares, an unlimited number of first preferred shares and an unlimited number of second preferred shares.

ISSUED AND OUTSTANDING

| As at December 31 | 2010 | | 2009 | |
|--|----------------------|----------|----------------------|----------|
| | Number (millions) | Amount | Number (millions) | Amount |
| Common Shares Outstanding, Beginning of Year | 751.3 | \$ 2,360 | 750.4 | \$ 4,557 |
| Common Shares Issued under Option Plans | 0.4 | 5 | 0.4 | 5 |
| Common Shares Issued from PSU Trust | - | - | 0.5 | 19 |
| Stock-Based Compensation | - | 2 | - | 1 |
| Common Shares Purchased | (15.4) | (48) | - | - |
| Common Shares Cancelled (Note 3) | - | - | (751.3) | (4,582) |
| New Encana Common Shares Issued (Note 3) | - | - | 751.3 | 2,360 |
| Encana Special Shares Issued (Note 3) | - | - | 751.3 | 2,222 |
| Encana Special Shares Cancelled (Note 3) | - | - | (751.3) | (2,222) |
| Common Shares Outstanding, End of Year | 736.3 | \$ 2,319 | 751.3 | \$ 2,360 |

PER SHARE AMOUNTS

The following table summarizes the common shares used in calculating net earnings per common share:

| For the years ended December 31 (in millions) | 2010 | 2009 | 2008 |
|--|-------|-------|-------|
| Weighted Average Common Shares Outstanding – Basic | 739.7 | 751.0 | 750.1 |
| Effect of Dilutive Securities | 0.1 | 0.4 | 1.7 |
| Weighted Average Common Shares Outstanding – Diluted | 739.8 | 751.4 | 751.8 |

NORMAL COURSE ISSUER BID

Encana has received regulatory approval each year under Canadian securities laws to purchase common shares under nine consecutive Normal Course Issuer Bids (“NCIB”). Encana is entitled to purchase, for cancellation, up to 36.8 million common shares under the current NCIB, which commenced on December 14, 2010 and terminates on December 13, 2011. During 2010, the Company purchased approximately 15.4 million common shares for total consideration of approximately \$499 million. Of the amount paid, \$6 million was charged to paid in surplus, \$48 million was charged to share capital and \$445 million was charged to retained earnings.

During 2009, the Company did not purchase any of its common shares.

During 2008, the Company purchased approximately 4.8 million common shares for total consideration of approximately \$326 million. Of the amount paid, \$29 million was charged to share capital and \$297 million was charged to retained earnings. Included in the common shares purchased in 2008 are 2.0 million common shares distributed, valued at \$16 million, from the Encana Employee Benefit Plan Trust that vested under Encana’s Performance Share Unit (“PSU”) Plan. For these common shares distributed, there was a \$54 million adjustment to retained earnings with a reduction to paid in surplus of \$70 million.

PERFORMANCE SHARE UNITS

In April 2009, the remaining 0.5 million common shares held in trust relating to Encana’s Performance Share Unit Plan were sold for total consideration of \$25 million. Of the amount received, \$19 million was credited to share capital and \$6 million to paid in surplus, representing the excess consideration received over the original price of the common shares acquired by the trust. Effective May 15, 2009, the trust agreement was terminated.

Notes to Consolidated Financial Statements

ENCANA STOCK OPTION PLAN

Encana has stock-based compensation plans that allow employees to purchase common shares of the Company. Option exercise prices approximate the market price for the common shares on the date the options were granted. Options granted are exercisable at 30 percent of the number granted after one year, an additional 30 percent of the number granted after two years, are fully exercisable after three years and expire five years after the date granted. In addition, certain stock options granted are performance based. The performance based stock options vest and expire under the same terms and service conditions as the underlying option, and vesting is subject to Encana attaining prescribed performance relative to predetermined key measures. All options outstanding as at December 31, 2010 have an associated Tandem Share Appreciation Right ("TSAR") attached (See Note 16).

At December 31, 2010, there were 11.8 million common shares reserved for issuance under stock option plans (2009 – 9.6 million; 2008 – 16.5 million).

At December 31, 2009, the balance in paid in surplus relates to stock-based compensation programs.

ENCANA SHARE UNITS HELD BY CENOVUS EMPLOYEES

The share units described below include TSARs, Performance TSARs, Share Appreciation Rights ("SARs") and Performance SARs.

As part of the Split Transaction, on November 30, 2009, each holder of Encana share units disposed of their right in exchange for the grant of new Encana share units and Cenovus share units. The terms and conditions of the new share units are similar to the terms and conditions of the original share units.

With respect to Encana share units held by Cenovus employees and Cenovus share units held by Encana employees, both Encana and Cenovus have agreed to reimburse each other for share units exercised for cash by their respective employees. Accordingly, for Encana share units held by Cenovus employees, Encana has recorded a payable to Cenovus employees and a receivable due from Cenovus. The payable to Cenovus employees and the receivable due from Cenovus is based on the fair value of the Encana share units determined using the Black-Scholes-Merton model (See Note 17). There is no impact on Encana's net earnings for share units held by Cenovus employees. No further Encana share units will be granted to Cenovus employees.

Cenovus employees can choose to exercise Encana TSARs and Encana Performance TSARs in exchange for Encana common shares or for cash. The following table summarizes the information regarding share units held by Cenovus employees as at December 31, 2010. Refer to Note 16 for information regarding share units held by Encana employees.

| As at December 31 | 2010 | |
|--|--|--|
| | Number of Encana Share Units (millions) | Weighted Average Exercise Price |
| Canadian Dollar Denominated (C\$) | | |
| Encana TSARs held by Cenovus Employees | | |
| Outstanding, End of Year | 6.4 | 30.67 |
| Exercisable, End of Year | 4.5 | 30.13 |
| Encana Performance TSARs held by Cenovus Employees | | |
| Outstanding, End of Year | 7.1 | 31.61 |
| Exercisable, End of Year | 3.6 | 31.74 |

Notes to Consolidated Financial Statements

16. Compensation Plans

The following information relates to Encana's compensation plans at December 31, 2010.

As part of the Split Transaction, each holder of Encana share units disposed of their right in exchange for the grant of new Encana share units and Cenovus share units. The terms and conditions of the new share units are similar to the terms and conditions of the original share units. Share units include TSARs, Performance TSARs, SARs and Performance SARs.

The original exercise price of the share units was apportioned to the Encana and Cenovus share units based on a valuation methodology that included the weighted average trading price of the new Encana common shares and the weighted average trading price of the Cenovus common shares on the Toronto Stock Exchange ("TSX") on a "when issued" basis on December 2, 2009.

For new Encana share units held by Encana employees, Encana accrues compensation cost over the vesting period based on the intrinsic method of accounting.

For Cenovus share units held by Encana employees, Encana accrues compensation cost over the vesting period based on the fair value of the Cenovus share units. The fair value of the Cenovus share units is determined using the Black-Scholes-Merton model. At December 31, 2010, the fair value was estimated using the following weighted average assumptions: risk free rate of 1.7 percent, dividend yield of 2.4 percent, volatility of 22.5 percent and Cenovus closing market share price of C\$33.28 (See Note 17). No further Cenovus share units will be granted to Encana employees.

Refer to Note 15 for information regarding Encana share units held by Cenovus employees.

A) TANDEM SHARE APPRECIATION RIGHTS

All options to purchase common shares issued under the stock option plan described in Note 15 have an associated TSAR attached to them whereby the option holder has the right to receive a cash payment equal to the excess of the market price of Encana's common shares at the time of exercise over the exercise price of the right in lieu of exercising the option. The TSARs vest and expire under the same terms and conditions as the underlying option.

The following table summarizes information related to the TSARs prior to the November 30, 2009 Split Transaction (See Note 3):

| As at December 31 | 2010 | | 2009 | |
|--|----------------------|--|----------------------|--|
| | Outstanding TSARs | Weighted Average Exercise Price | Outstanding TSARs | Weighted Average Exercise Price |
| Canadian Dollar Denominated (C\$) | | | | |
| Outstanding, Beginning of Year | - | - | 19,411,939 | 53.97 |
| Granted | - | - | 4,030,680 | 55.39 |
| Exercised – SARs | - | - | (1,994,556) | 42.65 |
| Exercised – Options | - | - | (60,914) | 34.89 |
| Forfeited | - | - | (452,606) | 60.11 |
| Exchanged for new TSARs | - | - | (20,934,543) | 55.25 |
| Outstanding, End of Year | - | - | - | - |
| Exercisable, End of Year | - | - | - | - |

Notes to Consolidated Financial Statements

The following tables summarize information related to the new Encana TSARs held by Encana employees:

| As at December 31 | 2010 | | 2009 | |
|--|----------------------|--|----------------------|--|
| | Outstanding TSARs | Weighted Average Exercise Price | Outstanding TSARs | Weighted Average Exercise Price |
| Canadian Dollar Denominated (C\$) | | | | |
| Outstanding, Beginning of Year | 12,473,214 | 28.85 | - | - |
| New TSARs exchanged November 30, 2009 | - | - | 12,556,585 | 28.83 |
| Granted | 4,796,595 | 32.59 | 12,775 | 29.96 |
| Exercised – SARs | (2,499,993) | 23.97 | (54,075) | 21.26 |
| Exercised – Options | (97,136) | 20.90 | (206) | 22.65 |
| Forfeited | (432,413) | 32.87 | (41,865) | 33.46 |
| Outstanding, End of Year | 14,240,267 | 30.89 | 12,473,214 | 28.85 |
| Exercisable, End of Year | 7,301,991 | 29.47 | 7,713,376 | 26.94 |

| As at December 31, 2010 | Outstanding Encana TSARs | | | Exercisable Encana TSARs | |
|-------------------------------|--------------------------|---|--|--------------------------|--|
| Range of Exercise Price (C\$) | Number of TSARs | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Number of TSARs | Weighted Average Exercise Price |
| 20.00 to 29.99 | 7,093,900 | 1.45 | 27.68 | 5,358,068 | 27.23 |
| 30.00 to 39.99 | 6,999,717 | 3.32 | 33.86 | 1,855,933 | 35.21 |
| 40.00 to 49.99 | 145,150 | 2.41 | 44.72 | 87,090 | 44.72 |
| 50.00 to 59.99 | 1,500 | 2.39 | 50.39 | 900 | 50.39 |
| | 14,240,267 | 2.38 | 30.89 | 7,301,991 | 29.47 |

The following tables summarize information related to the Cenovus TSARs held by Encana employees:

| As at December 31 | 2010 | | 2009 | |
|--|----------------------|--|----------------------|--|
| | Outstanding TSARs | Weighted Average Exercise Price | Outstanding TSARs | Weighted Average Exercise Price |
| Canadian Dollar Denominated (C\$) | | | | |
| Outstanding, Beginning of Year | 12,482,694 | 26.08 | - | - |
| New TSARs exchanged November 30, 2009 | - | - | 12,556,585 | 26.07 |
| Exercised – SARs | (3,847,458) | 22.25 | (29,840) | 18.57 |
| Exercised – Options | (105,469) | 19.37 | (1,206) | 16.77 |
| Forfeited | (316,109) | 29.86 | (42,845) | 30.17 |
| Outstanding, End of Year | 8,213,658 | 27.81 | 12,482,694 | 26.08 |
| Exercisable, End of Year | 5,977,506 | 27.38 | 7,735,631 | 24.35 |

| As at December 31, 2010 | Outstanding Cenovus TSARs | | | Exercisable Cenovus TSARs | |
|-------------------------------|---------------------------|---|--|---------------------------|--|
| Range of Exercise Price (C\$) | Number of TSARs | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Number of TSARs | Weighted Average Exercise Price |
| 20.00 to 29.99 | 5,774,811 | 1.51 | 25.54 | 4,361,200 | 25.30 |
| 30.00 to 39.99 | 2,360,197 | 2.06 | 32.84 | 1,569,116 | 32.69 |
| 40.00 to 49.99 | 78,650 | 2.44 | 42.86 | 47,190 | 42.86 |
| | 8,213,658 | 1.68 | 27.81 | 5,977,506 | 27.38 |

During the year, the Company recorded a net reduction of compensation costs of \$2 million, which included a reduction of compensation costs of \$33 million related to the Encana TSARs and compensation costs of \$31 million related to the Cenovus TSARs (2009 - compensation costs of \$5 million related to the outstanding TSARs)

Notes to Consolidated Financial Statements

prior to the Split Transaction, \$11 million related to the new Encana TSARs and \$46 million related to the Cenovus TSARs; 2008 – reduction of compensation costs of \$47 million).

B) PERFORMANCE TANDEM SHARE APPRECIATION RIGHTS

During 2007, 2008 and 2009, under the terms of the existing Employee Stock Option Plan, Encana granted Performance TSARs under which the employee has the right to receive a cash payment equal to the excess of the market price of Encana common shares at the time of exercise over the grant price. Performance TSARs vest and expire under the same terms and service conditions as the underlying option, and vesting is subject to Encana attaining prescribed performance relative to key predetermined measures. Performance TSARs that do not vest when eligible are forfeited.

The following table summarizes information related to the Performance TSARs prior to the November 30, 2009 Split Transaction (See Note 3):

| As at December 31 | 2010 | | 2009 | |
|--|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | Outstanding Performance TSARs | Weighted Average Exercise Price | Outstanding Performance TSARs | Weighted Average Exercise Price |
| Canadian Dollar Denominated (C\$) | | | | |
| Outstanding, Beginning of Year | - | - | 12,979,725 | 63.13 |
| Granted | - | - | 7,751,720 | 55.31 |
| Exercised – SARs | - | - | (144,707) | 56.09 |
| Exercised – Options | - | - | (980) | 56.09 |
| Forfeited | - | - | (2,041,565) | 62.64 |
| Exchanged for new Performance TSARs | - | - | (18,544,193) | 59.97 |
| Outstanding, End of Year | - | - | - | - |
| Exercisable, End of Year | - | - | - | - |

The following tables summarize information related to the new Encana Performance TSARs held by Encana employees:

| As at December 31 | 2010 | | 2009 | |
|---|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | Outstanding Performance TSARs | Weighted Average Exercise Price | Outstanding Performance TSARs | Weighted Average Exercise Price |
| Canadian Dollar Denominated (C\$) | | | | |
| Outstanding, Beginning of Year | 10,461,901 | 31.42 | - | - |
| New Performance TSARs exchanged November 30, 2009 | - | - | 10,491,119 | 31.42 |
| Exercised – SARs | (251,443) | 29.36 | (2,070) | 29.45 |
| Exercised – Options | (171) | 29.04 | - | - |
| Forfeited | (1,102,718) | 31.51 | (27,148) | 31.59 |
| Outstanding, End of Year | 9,107,569 | 31.46 | 10,461,901 | 31.42 |
| Exercisable, End of Year | 4,994,939 | 31.42 | 2,235,899 | 31.55 |

| As at December 31, 2010 | Outstanding Encana Performance TSARs | | | Exercisable Encana Performance TSARs | |
|-------------------------------|--------------------------------------|---|---------------------------------|--------------------------------------|---------------------------------|
| Range of Exercise Price (C\$) | Number of TSARs | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Number of TSARs | Weighted Average Exercise Price |
| 20.00 to 29.99 | 6,274,133 | 2.28 | 29.21 | 3,534,763 | 29.34 |
| 30.00 to 39.99 | 2,833,436 | 2.12 | 36.44 | 1,460,176 | 36.44 |
| | 9,107,569 | 2.23 | 31.46 | 4,994,939 | 31.42 |

Notes to Consolidated Financial Statements

The following tables summarize information related to the Cenovus Performance TSARs held by Encana employees:

| As at December 31 | 2010 | | 2009 | |
|--|-------------------------------------|--|-------------------------------------|--|
| | Outstanding Performance TSARs | Weighted Average Exercise Price | Outstanding Performance TSARs | Weighted Average Exercise Price |
| Canadian Dollar Denominated (C\$) | | | | |
| Outstanding, Beginning of Year | 10,462,643 | 28.42 | - | - |
| New Performance TSARs exchanged November 30, 2009 | - | - | 10,491,119 | 28.42 |
| Exercised – SARs | (410,520) | 26.54 | - | - |
| Exercised – Options | (991) | 26.46 | - | - |
| Forfeited | (1,110,646) | 28.49 | (28,476) | 28.49 |
| Outstanding, End of Year | 8,940,486 | 28.49 | 10,462,643 | 28.42 |
| Exercisable, End of Year | 4,827,858 | 28.49 | 2,236,641 | 28.54 |

| As at December 31, 2010 | Outstanding Cenovus Performance TSARs | | | Exercisable Cenovus Performance TSARs | |
|-------------------------------|--|---|--|--|--|
| Range of Exercise Price (C\$) | Number of TSARs | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Number of TSARs | Weighted Average Exercise Price |
| 20.00 to 29.99 | 6,107,050 | 2.29 | 26.42 | 3,367,682 | 26.55 |
| 30.00 to 39.99 | 2,833,436 | 2.12 | 32.96 | 1,460,176 | 32.96 |
| | 8,940,486 | 2.24 | 28.49 | 4,827,858 | 28.49 |

During the year, the Company recorded net compensation costs of \$4 million, which included a reduction of compensation costs of \$18 million related to the Encana Performance TSARs and compensation costs of \$22 million related to the Cenovus Performance TSARs (2009 - compensation costs of \$4 million related to the outstanding Performance TSARs prior to the Split Transaction, \$20 million related to the new Encana Performance TSARs and \$19 million related to the Cenovus Performance TSARs; 2008 – a reduction of compensation costs of \$6 million).

C) SHARE APPRECIATION RIGHTS

Encana has a program whereby employees may be granted SARs, which entitle the employee to receive a cash payment equal to the excess of the market price of Encana's common shares at the time of exercise over the exercise price of the right. SARs granted during 2010 and 2009 are exercisable at 30 percent of the number granted after one year, an additional 30 percent of the number granted after two years, are fully exercisable after three years and expire five years after the grant date.

Notes to Consolidated Financial Statements

The following table summarizes information related to the SARs prior to the November 30, 2009 Split Transaction (See Note 3):

| As at December 31 | 2010 | | 2009 | |
|--|------------------|---------------------------------|------------------|---------------------------------|
| | Outstanding SARs | Weighted Average Exercise Price | Outstanding SARs | Weighted Average Exercise Price |
| Canadian Dollar Denominated (C\$) | | | | |
| Outstanding, Beginning of Year | - | - | 1,285,065 | 72.13 |
| Granted | - | - | 1,126,850 | 55.48 |
| Exercised – SARs | - | - | (990) | 43.50 |
| Forfeited | - | - | (60,365) | 66.64 |
| Exchanged for new SARs | - | - | (2,350,560) | 64.30 |
| Outstanding, End of Year | - | - | - | - |
| Exercisable, End of Year | - | - | - | - |

The following tables summarize information related to the new Encana SARs held by Encana employees:

| As at December 31 | 2010 | | 2009 | |
|--|------------------|---------------------------------|------------------|---------------------------------|
| | Outstanding SARs | Weighted Average Exercise Price | Outstanding SARs | Weighted Average Exercise Price |
| Canadian Dollar Denominated (C\$) | | | | |
| Outstanding, Beginning of Year | 2,343,485 | 33.75 | - | - |
| New SARs exchanged November 30, 2009 | - | - | 2,329,835 | 33.78 |
| Granted | - | - | 19,525 | 29.87 |
| Exercised | (35,535) | 28.98 | - | - |
| Forfeited | (121,334) | 33.23 | (5,875) | 32.24 |
| Outstanding, End of Year | 2,186,616 | 33.86 | 2,343,485 | 33.75 |
| Exercisable, End of Year | 993,370 | 35.39 | 370,438 | 37.93 |

| As at December 31, 2010 | Outstanding Encana SARs | | | Exercisable Encana SARs | |
|-------------------------------|-------------------------|---|---------------------------------|-------------------------|---------------------------------|
| Range of Exercise Price (C\$) | Number of SARs | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Number of SARs | Weighted Average Exercise Price |
| 20.00 to 29.99 | 1,009,771 | 3.12 | 28.95 | 295,669 | 28.87 |
| 30.00 to 39.99 | 997,945 | 2.30 | 36.55 | 590,361 | 36.64 |
| 40.00 to 49.99 | 173,900 | 2.44 | 46.38 | 104,340 | 46.38 |
| 50.00 to 59.99 | 5,000 | 2.46 | 50.09 | 3,000 | 50.09 |
| | 2,186,616 | 2.69 | 33.86 | 993,370 | 35.39 |

Beginning in January 2010, U.S. dollar denominated SARs were granted to eligible employees. The terms and conditions are similar to the Canadian dollar denominated SARs. The following tables summarize information related to the U.S. dollar denominated SARs held by Encana employees at December 31, 2010:

| As at December 31 | 2010 | | 2009 | |
|---------------------------------------|------------------|---------------------------------|------------------|---------------------------------|
| | Outstanding SARs | Weighted Average Exercise Price | Outstanding SARs | Weighted Average Exercise Price |
| U.S. Dollar Denominated (US\$) | | | | |
| Outstanding, Beginning of Year | - | - | - | - |
| Granted | 4,864,490 | 30.73 | - | - |
| Forfeited | (145,900) | 30.71 | - | - |
| Outstanding, End of Year | 4,718,590 | 30.73 | - | - |
| Exercisable, End of Year | 5,050 | 30.68 | - | - |

Notes to Consolidated Financial Statements

| As at December 31, 2010 | Outstanding Encana SARs | | | Exercisable Encana SARs | |
|--------------------------------|-------------------------|---|---------------------------------|-------------------------|---------------------------------|
| | Number of SARs | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Number of SARs | Weighted Average Exercise Price |
| Range of Exercise Price (US\$) | | | | | |
| 20.00 to 29.99 | 477,325 | 4.75 | 28.31 | - | - |
| 30.00 to 39.99 | 4,241,265 | 4.16 | 31.00 | 5,050 | 30.68 |
| | 4,718,590 | 4.22 | 30.73 | 5,050 | 30.68 |

The following tables summarize information related to the Cenovus SARs held by Encana employees:

| As at December 31 | 2010 | | 2009 | |
|--|------------------|---------------------------------|------------------|---------------------------------|
| | Outstanding SARs | Weighted Average Exercise Price | Outstanding SARs | Weighted Average Exercise Price |
| Canadian Dollar Denominated (C\$) | | | | |
| Outstanding, Beginning of Year | 2,323,960 | 30.55 | - | - |
| New SARs exchanged November 30, 2009 | - | - | 2,329,835 | 30.55 |
| Exercised | (44,327) | 26.15 | - | - |
| Forfeited | (121,122) | 30.11 | (5,875) | 29.17 |
| Outstanding, End of Year | 2,158,511 | 30.67 | 2,323,960 | 30.55 |
| Exercisable, End of Year | 979,635 | 32.08 | 370,438 | 34.30 |

| As at December 31, 2010 | Outstanding Cenovus SARs | | | Exercisable Cenovus SARs | |
|-------------------------------|--------------------------|---|---------------------------------|--------------------------|---------------------------------|
| Range of Exercise Price (C\$) | Number of SARs | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Number of SARs | Weighted Average Exercise Price |
| 20.00 to 29.99 | 1,034,146 | 3.11 | 26.28 | 303,813 | 26.25 |
| 30.00 to 39.99 | 992,015 | 2.26 | 33.54 | 596,412 | 33.54 |
| 40.00 to 49.99 | 132,350 | 2.44 | 43.44 | 79,410 | 43.44 |
| | 2,158,511 | 2.68 | 30.67 | 979,635 | 32.08 |

During the year, the Company recorded net compensation costs of \$2 million, which included a reduction of compensation costs of \$3 million related to the new Encana SARs and compensation costs of \$5 million related to the Cenovus SARs (2009 - compensation costs of \$1 million related to the outstanding SARs prior to the Split Transaction, \$2 million related to the new Encana SARs and \$5 million related to the Cenovus SARs; 2008 – nil).

D) PERFORMANCE SHARE APPRECIATION RIGHTS

In 2009, Encana granted Performance SARs to certain employees which entitle the employee to receive a cash payment equal to the excess of the market price of Encana's common shares at the time of exercise over the grant price. Performance SARs vest and expire under the same terms and service conditions as SARs and are also subject to Encana attaining prescribed performance relative to predetermined key measures. Performance SARs that do not vest when eligible are forfeited.

Notes to Consolidated Financial Statements

The following table summarizes information related to the Performance SARs prior to the November 30, 2009 Split Transaction (See Note 3):

| As at December 31 | 2010 | | 2009 | |
|--|------------------------------|---------------------------------|------------------------------|---------------------------------|
| | Outstanding Performance SARs | Weighted Average Exercise Price | Outstanding Performance SARs | Weighted Average Exercise Price |
| Canadian Dollar Denominated (C\$) | | | | |
| Outstanding, Beginning of Year | - | - | 1,620,930 | 69.40 |
| Granted | - | - | 2,140,440 | 55.31 |
| Forfeited | - | - | (256,235) | 67.47 |
| Exchanged for new Performance SARs | - | - | (3,505,135) | 60.94 |
| Outstanding, End of Year | - | - | - | - |
| Exercisable, End of Year | - | - | - | - |

The following tables summarize information related to the new Encana Performance SARs held by Encana employees:

| As at December 31 | 2010 | | 2009 | |
|--|------------------------------|---------------------------------|------------------------------|---------------------------------|
| | Outstanding Performance SARs | Weighted Average Exercise Price | Outstanding Performance SARs | Weighted Average Exercise Price |
| Canadian Dollar Denominated (C\$) | | | | |
| Outstanding, Beginning of Year | 3,471,998 | 32.00 | - | - |
| New Performance SARs exchanged November 30, 2009 | - | - | 3,481,203 | 31.99 |
| Exercised | (52,173) | 29.04 | - | - |
| Forfeited | (401,963) | 32.26 | (9,205) | 29.97 |
| Outstanding, End of Year | 3,017,862 | 32.01 | 3,471,998 | 32.00 |
| Exercisable, End of Year | 1,060,938 | 33.41 | 293,344 | 36.44 |

| As at December 31, 2010 | Outstanding Encana Performance SARs | | | Exercisable Encana Performance SARs | |
|-------------------------------|-------------------------------------|---|---------------------------------|-------------------------------------|---------------------------------|
| Range of Exercise Price (C\$) | Number of SARs | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Number of SARs | Weighted Average Exercise Price |
| 20.00 to 29.99 | 1,806,183 | 3.12 | 29.04 | 434,645 | 29.04 |
| 30.00 to 39.99 | 1,211,679 | 2.12 | 36.44 | 626,293 | 36.44 |
| | 3,017,862 | 2.72 | 32.01 | 1,060,938 | 33.41 |

The following tables summarize information related to the Cenovus Performance SARs held by Encana employees:

| As at December 31 | 2010 | | 2009 | |
|--|------------------------------|---------------------------------|------------------------------|---------------------------------|
| | Outstanding Performance SARs | Weighted Average Exercise Price | Outstanding Performance SARs | Weighted Average Exercise Price |
| Canadian Dollar Denominated (C\$) | | | | |
| Outstanding, Beginning of Year | 3,471,998 | 28.94 | - | - |
| New Performance SARs exchanged November 30, 2009 | - | - | 3,481,203 | 28.94 |
| Exercised | (64,173) | 26.27 | - | - |
| Forfeited | (401,827) | 29.20 | (9,205) | 27.11 |
| Outstanding, End of Year | 3,005,998 | 28.96 | 3,471,998 | 28.94 |
| Exercisable, End of Year | 1,050,358 | 30.26 | 293,344 | 32.96 |

Notes to Consolidated Financial Statements

| As at December 31, 2010 | Outstanding Cenovus Performance SARs | | | Exercisable Cenovus Performance SARs | |
|-------------------------------|--------------------------------------|---|---------------------------------|--------------------------------------|---------------------------------|
| | Number of SARs | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Number of SARs | Weighted Average Exercise Price |
| Range of Exercise Price (C\$) | | | | | |
| 20.00 to 29.99 | 1,795,147 | 3.12 | 26.27 | 424,493 | 26.27 |
| 30.00 to 39.99 | 1,210,851 | 2.12 | 32.96 | 625,865 | 32.96 |
| | 3,005,998 | 2.72 | 28.96 | 1,050,358 | 30.26 |

During the year, the Company recorded net compensation costs of \$2 million, which included a reduction of compensation costs of \$4 million related to the new Encana Performance SARs and compensation costs of \$6 million related to the Cenovus Performance SARs (2009 - compensation costs of \$1 million related to the outstanding Performance SARs prior to the Split Transaction, \$3 million related to the new Encana Performance SARs and \$7 million related to the Cenovus Performance SARs; 2008 – nil).

E) PERFORMANCE SHARE UNITS

In February 2010, PSUs were granted to eligible employees which entitle the employees to receive, upon vesting, a cash payment equal to the value of one common share of Encana for each PSU held, depending upon the terms of the amended PSU plan. PSUs vest three years from the date of grant, provided the employee remains actively employed with Encana on the vesting date.

The ultimate value of the PSUs will depend upon Encana's performance measured over the three-year period. Each year, Encana's performance will be assessed by the Board of Directors (the "Board") to determine whether the performance criteria have been met. Based on this assessment, up to a maximum of two times the original PSU grant may be awarded in respect of the year being measured. The respective proportion of the original PSU grant deemed eligible to vest for each year will be valued, based on an average share price over the last 20 trading days of the year for which performance is measured, and the notional cash value deposited to a PSU account, with payout deferred to the final vesting date.

The following table summarizes information related to the PSUs:

| As at December 31, 2010 | Canadian Dollar Denominated Outstanding PSUs | U.S. Dollar Denominated Outstanding PSUs |
|--------------------------------|--|--|
| Outstanding, Beginning of Year | - | - |
| Granted | 880,735 | 810,910 |
| Units, in Lieu of Dividends | 23,002 | 21,082 |
| Forfeited | (28,556) | (36,080) |
| Outstanding, End of Year | 875,181 | 795,912 |

During the year, the Company recorded compensation costs of \$15 million related to the outstanding PSUs (2009 – nil; 2008 – \$1 million).

F) DEFERRED SHARE UNITS

The Company has in place a program whereby Directors and certain key employees are issued Deferred Share Units ("DSUs"), which vest immediately and are equivalent in value to a common share of the Company. DSUs expire on December 15th of the year following the Director's resignation or employee's termination.

Employees have the option to convert either 25 or 50 percent of their annual High Performance Results ("HPR") award into DSUs. The number of DSUs is based on the value of the award divided by the closing value of Encana's share price at the end of the performance period of the HPR award. DSUs vest immediately, can be

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redeemed in accordance with the terms of the agreement and expire on December 15th of the year following the year of termination.

Pursuant to the Split Transaction, additional Encana DSUs were credited to employees, officers and Directors of Encana to compensate employees, officers and Directors for the loss in value of the Encana common shares. The number of Encana DSUs credited to each was determined so that, immediately after the adjustment, each participant has an aggregate number of Encana DSUs based on a formula that the Encana DSUs fair value would equal the fair value of the exchanged Encana DSUs. Encana DSUs credited to employees, officers and Directors of Cenovus were exchanged for Cenovus DSUs, each having a notional value equal to the value of one Cenovus common share.

The following table summarizes information related to the DSUs:

| As at December 31 | 2010 | 2009 |
|--|---------------------|---------------------|
| | Outstanding DSUs | Outstanding DSUs |
| Canadian Dollar Denominated | | |
| Outstanding, Beginning of Year | 672,147 | 656,841 |
| Granted | 104,477 | 74,600 |
| Converted from HPR awards | 21,732 | 46,884 |
| Encana DSUs exchanged for Cenovus DSUs | - | (367,293) |
| Encana DSU credit adjustment | - | 321,375 |
| Units, in Lieu of Dividends | 20,338 | 22,749 |
| Redeemed | (101,801) | (83,009) |
| Outstanding, End of Year | 716,893 | 672,147 |

During the year, the Company did not record any compensation costs related to the outstanding DSUs (2009 – \$8 million; 2008 – \$2 million).

G) PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The Company sponsors defined benefit and defined contribution plans, providing pension and other post-employment benefits (“OPEB”) to its employees. In the past, the defined benefit plan was offered; however, it has been closed to new entrants since January 1, 2003. The average remaining service period of the active employees covered by the defined benefit pension plan is six years. The average remaining service period of the active employees covered by the OPEB plan is 10 years.

The Company is required to file an actuarial valuation of its pension plans with the provincial regulator at least every three years. The most recent filing was dated November 30, 2009 and the next required filing will be as at December 31, 2012.

Information related to defined benefit pension and other post-employment benefit plans, based on actuarial estimations as at December 31, 2010 is as follows:

| As at December 31 | Pension Benefits | | OPEB | |
|--|------------------|--------|---------|---------|
| | 2010 | 2009 | 2010 | 2009 |
| Fair Value of Plan Assets, End of Year | \$ 276 | \$ 251 | \$ - | \$ - |
| Accrued Benefit Obligation, End of Year | 313 | 277 | 82 | 62 |
| Funded Status – Plan Assets (less) than Benefit Obligation | (37) | (26) | (82) | (62) |
| Amounts Not Recognized: | | | | |
| Unamortized net actuarial (gain) loss | 71 | 59 | 8 | 1 |
| Unamortized past service costs | 1 | 2 | 1 | 1 |
| Net transitional asset (liability) | - | - | 3 | 5 |
| Accrued Benefit Asset (Liability) | \$ 35 | \$ 35 | \$ (70) | \$ (55) |

The 2010 pension benefit obligation was determined using the weighted average discount rate of 5.00 percent (2009 – 5.75 percent) and a weighted average rate of compensation increase of 4.15 percent (2009 – 4.15 percent). The 2010 OPEB obligation was determined using the weighted average discount rate of 5.10 percent

Notes to Consolidated Financial Statements

(2009 – 5.93 percent) and a weighted average rate of compensation increase of 6.33 percent (2009 – 6.31 percent).

In 2009, accrued benefit obligation and plan assets of \$50 million were allocated in conjunction with the Split Transaction for active employees who are with Cenovus.

The periodic pension and OPEB expense is as follows:

| For the years ended December 31 | Pension Benefits | | | OPEB | | |
|------------------------------------|------------------|-------|-------|-------|-------|-------|
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| Defined Benefit Plans Expense | \$ 12 | \$ 20 | \$ 9 | \$ 15 | \$ 14 | \$ 12 |
| Defined Contribution Plans Expense | 34 | 43 | 44 | - | - | - |
| Total Benefit Plans Expense | \$ 46 | \$ 63 | \$ 53 | \$ 15 | \$ 14 | \$ 12 |

The Company's pension plan assets were invested in the following as at December 31, 2010: 41 percent Domestic Equity (2009 – 39 percent), 23 percent Foreign Equity (2009 – 23 percent), 29 percent Bonds (2009 – 29 percent), and 7 percent Real Estate and Other (2009 – 9 percent). The expected long-term rate of return is 6.75 percent. The expected rate of return on plan assets is based on historical and projected rates of return for each asset class in the plan investment portfolio. The asset allocation structure is subject to diversification requirements and constraints, which reduce risk by limiting exposure to individual equity investment, credit rating categories and foreign currency exposure.

The Company's contributions to the defined benefit pension plans are subject to the results of an actuarial valuation and direction by the Human Resources and Compensation Committee. Contributions by the participants to the pension and other benefits plans were \$0.3 million for the year ended December 31, 2010 (2009 – \$1 million; 2008 – \$1 million). Encana's contribution to the defined benefit pension plans for the year ended December 31, 2010 was \$10 million (2009 – \$12 million; 2008 – \$8 million).

The Company's OPEB plans are funded on an as required basis.

Estimated future payments of pension and other benefits are as follows:

| | Pension Benefits | OPEB |
|-------------|------------------|-------|
| 2011 | \$ 18 | \$ 3 |
| 2012 | 19 | 3 |
| 2013 | 19 | 4 |
| 2014 | 20 | 5 |
| 2015 | 21 | 5 |
| 2016 – 2020 | 107 | 34 |
| Total | \$ 204 | \$ 54 |

17. Financial Instruments and Risk Management

Encana's financial assets and liabilities include cash and cash equivalents, accounts receivable and accrued revenues, investments and other assets, accounts payable and accrued liabilities, risk management assets and liabilities, and long-term debt. Risk management assets and liabilities arise from the use of derivative financial instruments. Fair values of financial assets and liabilities, summarized information related to risk management positions, and discussion of risks associated with financial assets and liabilities are presented as follows:

A) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair values of cash and cash equivalents, accounts receivable and accrued revenues, and accounts payable and accrued liabilities approximate their carrying amount due to the short-term maturity of those instruments except for the amounts associated with share units issued as part of the Split Transaction, as discussed in Notes 15 and 16.

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Risk management assets and liabilities are recorded at their estimated fair value using quoted market prices or, in their absence, third-party market indications and forecasts.

The fair value of investments and other assets approximate their carrying amount due to the nature of the instruments held.

Long-term debt is carried at amortized cost using the effective interest method of amortization. The estimated fair values of long-term borrowings have been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Company at period end.

The fair value of financial assets and liabilities were as follows:

| As at December 31 | 2010 | | 2009 | |
|--|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial Assets | | | | |
| Held-for-Trading: | | | | |
| Cash and cash equivalents | \$ 629 | \$ 629 | \$ 4,275 | \$ 4,275 |
| Accounts receivable and accrued revenues ⁽¹⁾ | 27 | 27 | 75 | 75 |
| Risk management assets ⁽²⁾ | 1,234 | 1,234 | 360 | 360 |
| Investments and other assets | 86 | 86 | - | - |
| Loans and Receivables: | | | | |
| Accounts receivable and accrued revenues | 1,076 | 1,076 | 1,105 | 1,105 |
| Financial Liabilities | | | | |
| Held-for-Trading: | | | | |
| Accounts payable and accrued liabilities ^(3, 4) | \$ 147 | \$ 147 | \$ 155 | \$ 155 |
| Risk management liabilities ⁽²⁾ | 73 | 73 | 168 | 168 |
| Other Financial Liabilities: | | | | |
| Accounts payable and accrued liabilities | 2,064 | 2,064 | 1,988 | 1,988 |
| Long-term debt ⁽²⁾ | 7,629 | 8,488 | 7,768 | 8,527 |

(1) Represents amounts due from Cenovus for Encana share units held by Cenovus employees as discussed in Note 15.

(2) Including current portion.

(3) Includes amounts due to Cenovus employees for Encana share units held as discussed in Note 15.

(4) Includes amounts due to Cenovus for Cenovus share units held by Encana employees as discussed in Notes 15 and 16.

B) RISK MANAGEMENT ASSETS AND LIABILITIES

NET RISK MANAGEMENT POSITION

| As at December 31 | 2010 | 2009 |
|---------------------------|----------|--------|
| Risk Management | | |
| Current asset | \$ 729 | \$ 328 |
| Long-term asset | 505 | 32 |
| | 1,234 | 360 |
| Risk Management | | |
| Current liability | 65 | 126 |
| Long-term liability | 8 | 42 |
| | 73 | 168 |
| Net Risk Management Asset | \$ 1,161 | \$ 192 |

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SUMMARY OF UNREALIZED RISK MANAGEMENT POSITIONS

| As at December 31 | 2010 | | | 2009 | | |
|-------------------------|-----------------|--------------|-----------------|-----------------|---------------|---------------|
| | Risk Management | | | Risk Management | | |
| | Asset | Liability | Net | Asset | Liability | Net |
| Commodity Prices | | | | | | |
| Natural gas | \$ 1,234 | \$ 63 | \$ 1,171 | \$ 298 | \$ 88 | \$ 210 |
| Crude oil | - | - | - | 62 | 72 | (10) |
| Power | - | 10 | (10) | - | 8 | (8) |
| Total Fair Value | \$ 1,234 | \$ 73 | \$ 1,161 | \$ 360 | \$ 168 | \$ 192 |

NET FAIR VALUE METHODOLOGIES USED TO CALCULATE UNREALIZED RISK MANAGEMENT POSITIONS

The total net fair value of Encana's unrealized risk management positions is \$1,161 million as at December 31, 2010 (\$192 million as at December 31, 2009) and has been calculated using both quoted prices in active markets and observable market-corroborated data.

NET FAIR VALUE OF COMMODITY PRICE POSITIONS AT DECEMBER 31, 2010

| | Notional Volumes | Term | Average Price | Fair Value |
|---------------------------------|------------------|-----------|---------------|-----------------|
| Natural Gas Contracts | | | | |
| Fixed Price Contracts | | | | |
| NYMEX Fixed Price | 1,438 MMcf/d | 2011 | 5.98 US\$/Mcf | \$ 745 |
| NYMEX Fixed Price | 1,125 MMcf/d | 2012 | 6.36 US\$/Mcf | 522 |
| Basis Contracts * | | | | |
| Canada | | 2011 | | (15) |
| United States | | 2011 | | (51) |
| Canada and United States | | 2012-2013 | | (21) |
| | | | | 1,180 |
| Other Financial Positions ** | | | | |
| Natural Gas Fair Value Position | | | | (9) |
| | | | | 1,171 |
| Power Purchase Contracts | | | | |
| Power Fair Value Position | | | | (10) |
| Total Fair Value | | | | \$ 1,161 |

* Encana has entered into swaps to protect against widening natural gas price differentials between production areas, including Canada, the U.S. Rockies and Texas, and various sales points. These basis swaps are priced using both fixed prices and basis prices determined as a percentage of NYMEX.

** Other financial positions are part of the ongoing operations of the Company's proprietary production management.

EARNINGS IMPACT OF REALIZED AND UNREALIZED GAINS (LOSSES) ON RISK MANAGEMENT POSITIONS

| For the years ended December 31 | Realized Gain (Loss) | | |
|---------------------------------------|----------------------|-----------------|-----------------|
| | 2010 | 2009 | 2008 |
| Revenues, Net of Royalties | \$ 1,207 | \$ 4,420 | \$ (309) |
| Operating Expenses and Other | (4) | (44) | 28 |
| Gain (Loss) on Risk Management | \$ 1,203 | \$ 4,376 | \$ (281) |

| For the years ended December 31 | Unrealized Gain (Loss) | | |
|---------------------------------------|------------------------|-------------------|-----------------|
| | 2010 | 2009 | 2008 |
| Revenues, Net of Royalties | \$ 947 | \$ (2,640) | \$ 2,717 |
| Operating Expenses and Other | (2) | (40) | 12 |
| Gain (Loss) on Risk Management | \$ 945 | \$ (2,680) | \$ 2,729 |

Notes to Consolidated Financial Statements

RECONCILIATION OF UNREALIZED RISK MANAGEMENT POSITIONS FROM JANUARY 1 TO DECEMBER 31, 2010

| | 2010 | | 2009 | 2008 |
|--|------------|------------------------------|------------------------------|------------------------------|
| | Fair Value | Total Unrealized Gain (Loss) | Total Unrealized Gain (Loss) | Total Unrealized Gain (Loss) |
| Fair Value of Contracts, Beginning of Year | \$ 192 | | | |
| Change in Fair Value of Contracts in Place at Beginning of Year and Contracts Entered into During the Year | 2,148 | \$ 2,148 | \$ 1,696 | \$ 2,448 |
| Settlement of Contracts Transferred to Cenovus | 24 | - | - | - |
| Fair Value of Contracts Realized During the Year | (1,203) | (1,203) | (4,376) | 281 |
| Fair Value of Contracts, End of Year | \$ 1,161 | \$ 945 | \$ (2,680) | \$ 2,729 |

COMMODITY PRICE SENSITIVITIES

The following table summarizes the sensitivity of the fair value of the Company's risk management positions to fluctuations in commodity prices, with all other variables held constant. The Company has used a 10 percent variability to assess the potential impact of commodity price changes. Fluctuations in commodity prices could have resulted in unrealized gains (losses) impacting pre-tax net earnings as at December 31, 2010 as follows:

| | 10% Price Increase | 10% Price Decrease |
|-------------------|--------------------|--------------------|
| Natural gas price | \$ (447) | \$ 447 |
| Power price | 10 | (10) |

C) RISKS ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

The Company is exposed to financial risks arising from its financial assets and liabilities. Financial risks include market risks (such as commodity prices, foreign exchange and interest rates), credit risk and liquidity risk. The fair value or future cash flows of financial assets or liabilities may fluctuate due to movement in market prices and the exposure to credit and liquidity risks.

COMMODITY PRICE RISK

Commodity price risk arises from the effect that fluctuations of future commodity prices may have on the fair value or future cash flows of financial assets and liabilities. To partially mitigate exposure to commodity price risk, the Company has entered into various financial derivative instruments. The use of these derivative instruments is governed under formal policies and is subject to limits established by the Board. The Company's policy is to not use derivative financial instruments for speculative purposes.

Natural Gas – To partially mitigate the natural gas commodity price risk, the Company has entered into swaps which fix the NYMEX prices. To help protect against widening natural gas price differentials in various production areas, Encana has entered into swaps to manage the price differentials between these production areas and various sales points.

Power – The Company has in place two Canadian dollar denominated derivative contracts, which commenced January 1, 2007 for a period of 11 years, to manage its electricity consumption costs.

CREDIT RISK

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. This credit risk exposure is mitigated through the use of Board-approved credit policies governing the Company's credit portfolio and with credit practices that limit transactions according to counterparties' credit quality. At December 31, 2010, cash equivalents include high-grade, short-term securities, placed primarily with governments and financial institutions with strong investment grade ratings. Any foreign currency agreements entered into are with major financial institutions in Canada and the United States or with counterparties having investment grade credit ratings.

Notes to Consolidated Financial Statements

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. As at December 31, 2010, approximately 94 percent (2009 – 93 percent) of Encana's accounts receivable and financial derivative credit exposures are with investment grade counterparties.

At December 31, 2010, Encana had four counterparties (2009 – two counterparties) whose net settlement position individually account for more than 10 percent of the fair value of the outstanding in-the-money net financial instrument contracts by counterparty. The maximum credit risk exposure associated with accounts receivable and accrued revenues and risk management assets is the total carrying value.

LIQUIDITY RISK

Liquidity risk is the risk the Company will encounter difficulties in meeting a demand to fund its financial liabilities as they come due. The Company manages its liquidity risk through cash and debt management. Encana targets a Debt to Capitalization ratio of less than 40 percent and a Debt to Adjusted EBITDA of less than 2.0 times to steward the Company's overall debt position. Further information on Encana's Debt to Capitalization ratio and Debt to Adjusted EBITDA calculation is contained in Note 14.

In managing liquidity risk, the Company has access to cash equivalents and a wide range of funding at competitive rates through commercial paper, capital markets and banks. As at December 31, 2010, Encana had available unused committed bank credit facilities totaling \$5.1 billion which include a C\$4.5 billion (\$4.5 billion) revolving bank credit facility and a U.S. subsidiary revolving bank credit facility for \$565 million that remain committed through October 2012 and February 2013, respectively.

Encana also had unused capacity under two shelf prospectuses for up to \$6.0 billion, the availability of which is dependent on market conditions, to issue up to C\$2.0 billion (\$2.0 billion) of debt securities in Canada and up to \$4.0 billion of debt securities in the United States. These shelf prospectuses expire in June 2011 and May 2012, respectively. The Company believes it has sufficient funding through the use of these facilities to meet foreseeable borrowing requirements.

The timing of cash outflows relating to financial liabilities are outlined in the table below:

| | Less than 1 Year | 1 – 3 Years | 4 – 5 Years | 6 – 9 Years | Thereafter | Total |
|---|---------------------|-------------|-------------|-------------|------------|----------|
| Accounts Payable and Accrued Liabilities | \$ 2,211 | \$ - | \$ - | \$ - | \$ - | \$ 2,211 |
| Risk Management Liabilities | 65 | 8 | - | - | - | 73 |
| Long-Term Debt * | 973 | 1,853 | 1,705 | 3,141 | 6,502 | 14,174 |

* Principal and interest, including current portion.

Encana's total long-term debt obligations were \$14.2 billion at December 31, 2010. Further information on long-term debt is contained in Note 12.

FOREIGN EXCHANGE RISK

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As Encana operates primarily in North America, fluctuations in the exchange rate between the U.S./Canadian dollar can have a significant effect on the Company's reported results. Encana's functional currency is Canadian dollars; however, the Company reports its results in U.S. dollars as most of its revenue is closely tied to the U.S. dollar and to facilitate a more direct comparison to other North American oil and gas companies. As the effects of foreign exchange fluctuations are embedded in the Company's results, the total effect of foreign exchange fluctuations is not separately identifiable.

To mitigate the exposure to the fluctuating U.S./Canadian dollar exchange rate, Encana maintains a mix of both U.S. dollar and Canadian dollar debt. As at December 31, 2010, Encana had \$5.4 billion in U.S. dollar debt issued from Canada subject to foreign exchange exposure (\$5.6 billion at December 31, 2009) and \$2.3 billion in debt that was not subject to foreign exchange exposure (\$2.2 billion at December 31, 2009).

Notes to Consolidated Financial Statements

Encana's foreign exchange (gain) loss primarily includes foreign exchange gains and losses on U.S. dollar cash and short-term investments held in Canada, unrealized foreign exchange gains and losses on the translation of U.S. dollar debt issued from Canada, unrealized foreign exchange gains and losses on the translation of U.S. dollar denominated risk management assets and liabilities held in Canada and, in the prior year, foreign exchange gains and losses on the translation of the U.S. dollar partnership contribution receivable issued from Canada. A \$0.01 change in the U.S. to Canadian dollar exchange rate would have resulted in a \$49 million change in foreign exchange (gain) loss at December 31, 2010 (2009 - \$21 million).

INTEREST RATE RISK

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. The Company may partially mitigate its exposure to interest rate changes by holding a mix of both fixed and floating rate debt.

At December 31, 2010, the Company had no floating rate debt. Accordingly, the sensitivity in net earnings for each one percent change in interest rates on floating rate debt was nil (2009 – nil).

18. Supplementary Information

A) NET CHANGE IN NON-CASH WORKING CAPITAL FROM CONTINUING OPERATIONS

| For the years ended December 31 | 2010 | 2009 | 2008 |
|--|------------|----------|------------|
| Operating Activities | | | |
| Accounts receivable and accrued revenues | \$ 190 | \$ (487) | \$ 452 |
| Inventories | 6 | (271) | 211 |
| Accounts payable and accrued liabilities | (50) | 567 | (354) |
| Income tax payable | (2,136) | 1,237 | (589) |
| Discontinued operations | - | (1,075) | (1,073) |
| | \$ (1,990) | \$ (29) | \$ (1,353) |
| Investing Activities | | | |
| Accounts payable and accrued liabilities | \$ (26) | \$ (50) | \$ 34 |

B) SUPPLEMENTARY CASH FLOW INFORMATION – CONTINUING OPERATIONS

| For the years ended December 31 | 2010 | 2009 | 2008 |
|---------------------------------|----------|--------|----------|
| Interest Paid | \$ 507 | \$ 507 | \$ 543 |
| Income Taxes Paid | \$ 2,024 | \$ 766 | \$ 1,574 |

Notes to Consolidated Financial Statements

19. Commitments and Contingencies

COMMITMENTS

| As at December 31, 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter | Total |
|--|----------|----------|----------|----------|----------|------------|-----------|
| Pipeline Transportation and Processing | \$ 687 | \$ 722 | \$ 763 | \$ 767 | \$ 726 | \$ 3,416 | \$ 7,081 |
| Purchases of Goods and Services ⁽¹⁾ | 974 | 353 | 211 | 161 | 141 | 400 | 2,240 |
| Office Rent ⁽²⁾ | 81 | 188 | 195 | 191 | 185 | 3,206 | 4,046 |
| Capital Commitments | 199 | 120 | - | - | - | 38 | 357 |
| Total | \$ 1,941 | \$ 1,383 | \$ 1,169 | \$ 1,119 | \$ 1,052 | \$ 7,060 | \$ 13,724 |
| Cenovus's Share of Costs ⁽³⁾ | \$ 119 | \$ 142 | \$ 82 | \$ 80 | \$ 76 | \$ 1,528 | \$ 2,027 |

⁽¹⁾ Includes a commitment of \$667 million related to the PFC for the Deep Panuke project currently recorded as an asset under construction (See Note 4). This is expected to be recorded as an eight year capital lease upon commencement of operations.

⁽²⁾ Primarily related to the lease of office space associated with The Bow. Tenant improvements for The Bow are included under Capital Commitments.

⁽³⁾ Tenant costs associated with The Bow as well as current office space lease arrangements remain with Encana. Cenovus and Encana have entered into an agreement to share in the costs.

In addition to the above, the Company has made commitments related to its risk management program (See Note 17).

CONTINGENCIES

LEGAL PROCEEDINGS

The Company is involved in various legal claims associated with the normal course of operations. The Company believes it has made adequate provision for such legal claims.

ASSET RETIREMENT

Encana is responsible for the retirement of long-lived assets related to its oil and gas properties and Midstream facilities at the end of their useful lives. The Company has recognized a liability of \$820 million based on current legislation and estimated costs. Actual costs may differ from those estimated due to changes in legislation and changes in costs.

INCOME TAX MATTERS

The operations of the Company are complex, and related tax interpretations, regulations and legislation in the various jurisdictions in which Encana operates are continually changing. As a result, there are usually some tax matters under review. The Company believes that the provision for taxes is adequate.

20. Subsequent Events

On February 9, 2011, Encana announced the signing of a Co-operation Agreement with PetroChina International Investment Company Limited, a subsidiary of PetroChina Company Limited, that would see PetroChina pay C\$5.4 billion to acquire a 50 percent interest in Encana's Cutbank Ridge business assets in British Columbia and Alberta. Under the Co-operation Agreement, the two companies would establish a 50/50 joint venture to develop the assets.

The transaction is subject to regulatory approval from Canadian and Chinese authorities, due diligence and the negotiation and execution of various transaction agreements, including the joint venture agreement. Financial impacts will be determined at the time the negotiations are complete.

Notes to Consolidated Financial Statements

21. United States Accounting Principles and Reporting

The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which, in most respects, conform to accounting principles generally accepted in the United States ("U.S. GAAP"). The significant differences between Canadian GAAP and U.S. GAAP are described in this note.

RECONCILIATION OF NET EARNINGS UNDER CANADIAN GAAP TO U.S. GAAP

| For the years ended December 31 | Note | 2010 | 2009 | 2008 |
|---|-----------------|----------|------------|----------|
| Net Earnings – Canadian GAAP | | \$ 1,499 | \$ 1,862 | \$ 5,944 |
| Less: | | | | |
| Net Earnings From Discontinued Operations – Canadian GAAP | | - | 32 | (555) |
| Net Earnings From Continuing Operations – Canadian GAAP | | 1,499 | 1,830 | 6,499 |
| Increase (Decrease) in Net Earnings From Continuing Operations Under U.S. GAAP: | | | | |
| Revenues, net of royalties | | - | - | - |
| Operating | <i>D ii), H</i> | (7) | (16) | (46) |
| Depreciation, depletion and amortization | <i>B, D ii)</i> | 1,234 | (10,926) | (1,755) |
| Administrative | <i>D ii)</i> | (3) | 22 | (27) |
| Interest, net | <i>A</i> | - | - | (3) |
| Foreign exchange (gain) loss, net | <i>G</i> | 35 | 128 | - |
| Stock-Based compensation – options | <i>C</i> | - | - | 2 |
| Income tax expense (recovery) | <i>E</i> | (415) | 3,378 | 695 |
| Net Earnings (Loss) From Continuing Operations – U.S. GAAP | | 2,343 | (5,584) | 5,365 |
| Net Earnings (Loss) From Discontinued Operations – U.S. GAAP | | - | 32 | (555) |
| Net Earnings (Loss) – U.S. GAAP | | \$ 2,343 | \$ (5,552) | \$ 4,810 |
| Net Earnings (Loss) From Continuing Operations per Common Share | | | | |
| Basic | | \$ 3.17 | \$ (7.44) | \$ 7.15 |
| Diluted | | \$ 3.17 | \$ (7.44) | \$ 7.14 |
| Net Earnings (Loss) per Common Share | | | | |
| Basic | | \$ 3.17 | \$ (7.39) | \$ 6.41 |
| Diluted | | \$ 3.17 | \$ (7.39) | \$ 6.40 |

Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF EARNINGS – U.S. GAAP

| For the years ended December 31 | Note | 2010 | 2009 | 2008 |
|---|----------|----------|------------|-----------|
| Revenues, Net of Royalties | | \$ 8,870 | \$ 11,114 | \$ 21,053 |
| Expenses | | | | |
| Production and mineral taxes | | 217 | 171 | 478 |
| Transportation | | 859 | 1,280 | 1,704 |
| Operating | D ii), H | 1,068 | 1,643 | 2,029 |
| Purchased product | | 739 | 1,460 | 2,426 |
| Depreciation, depletion and amortization | B, D ii) | 2,008 | 14,630 | 5,790 |
| Administrative | D ii) | 362 | 455 | 474 |
| Interest, net | A | 501 | 405 | 405 |
| Accretion of asset retirement obligation | | 46 | 71 | 77 |
| Foreign exchange (gain) loss, net | G | (251) | (150) | 423 |
| Stock-Based compensation – options | C | - | - | (2) |
| (Gain) loss on divestitures | | 2 | 2 | (141) |
| Net Earnings (Loss) Before Income Tax | | 3,319 | (8,853) | 7,390 |
| Income tax expense (recovery) | E | 976 | (3,269) | 2,025 |
| Net Earnings (Loss) From Continuing Operations – U.S. GAAP | | 2,343 | (5,584) | 5,365 |
| Net Earnings (Loss) From Discontinued Operations – U.S. GAAP | | - | 32 | (555) |
| Net Earnings (Loss) – U.S. GAAP | | \$ 2,343 | \$ (5,552) | \$ 4,810 |
| Net Earnings (Loss) From Continuing Operations per Common Share – U.S. GAAP | | | | |
| Basic | | \$ 3.17 | \$ (7.44) | \$ 7.15 |
| Diluted | | \$ 3.17 | \$ (7.44) | \$ 7.14 |
| Net Earnings (Loss) From Discontinued Operations per Common Share – U.S. GAAP | | | | |
| Basic | | \$ - | \$ 0.05 | \$ (0.74) |
| Diluted | | \$ - | \$ 0.05 | \$ (0.74) |
| Net Earnings (Loss) per Common Share – U.S. GAAP | | | | |
| Basic | | \$ 3.17 | \$ (7.39) | \$ 6.41 |
| Diluted | | \$ 3.17 | \$ (7.39) | \$ 6.40 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – U.S. GAAP

| For the years ended December 31 | Note | 2010 | 2009 | 2008 |
|---|----------------|----------|------------|----------|
| Net Earnings (Loss) – U.S. GAAP | | \$ 2,343 | \$ (5,552) | \$ 4,810 |
| Change in Fair Value of Financial Instruments | A | - | - | 2 |
| Foreign Currency Translation Adjustment | B, D ii), F, G | 226 | 1,970 | (2,217) |
| Compensation Plans | D i), F | (2) | 13 | (12) |
| Comprehensive Income (Loss) | | \$ 2,567 | \$ (3,569) | \$ 2,583 |

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME – U.S. GAAP

| For the years ended December 31 | Note | 2010 | 2009 | 2008 |
|---|----------------|--------|---------|----------|
| Balance, Beginning of Year | | \$ 698 | \$ 811 | \$ 3,038 |
| Change in Fair Value of Financial Instruments | A | - | - | 2 |
| Foreign Currency Translation Adjustment | B, D ii), F, G | 226 | 1,970 | (2,217) |
| Compensation Plans | D i), F | (2) | 13 | (12) |
| Net Distribution to Cenovus Energy | | - | (2,096) | - |
| Balance, End of Year | | \$ 922 | \$ 698 | \$ 811 |

Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF RETAINED EARNINGS – U.S. GAAP

| For the years ended December 31 | 2010 | 2009 | 2008 |
|--------------------------------------|----------|-----------|-----------|
| Retained Earnings, Beginning of Year | \$ 4,804 | \$ 16,344 | \$ 12,976 |
| Net Earnings (Loss) | 2,343 | (5,552) | 4,810 |
| Dividends on Common Shares | (590) | (1,051) | (1,199) |
| Charges for Normal Course Issuer Bid | (445) | - | (243) |
| Net Distribution to Cenovus Energy | - | (4,937) | - |
| Retained Earnings, End of Year | \$ 6,112 | \$ 4,804 | \$ 16,344 |

CONDENSED CONSOLIDATED BALANCE SHEET – U.S. GAAP

| As at December 31 | Note | 2010 | | 2009 | |
|---|------------------------------|-------------|-----------|-------------|-----------|
| | | As Reported | U.S. GAAP | As Reported | U.S. GAAP |
| Assets | | | | | |
| Current Assets | | \$ 2,854 | \$ 2,807 | \$ 5,795 | \$ 5,750 |
| Property, Plant and Equipment | <i>D i), H B, D ii)</i> | | | | |
| (includes unproved properties and major development projects of \$3,030 and \$3,128 as of December 31, 2010 and 2009, respectively) | | 51,959 | 51,848 | 45,503 | 45,393 |
| Accumulated Depreciation, Depletion and Amortization | | (23,258) | (34,655) | (19,330) | (31,738) |
| Property, Plant and Equipment, net (Full Cost Method for Oil and Gas Activities) | | 28,701 | 17,193 | 26,173 | 13,655 |
| Investments and Other Assets | <i>D i)</i> | 235 | 200 | 164 | 119 |
| Risk Management | | 505 | 505 | 32 | 32 |
| Goodwill | | 1,725 | 1,725 | 1,663 | 1,663 |
| | | \$ 34,020 | \$ 22,430 | \$ 33,827 | \$ 21,219 |
| Liabilities and Shareholders' Equity | | | | | |
| Current Liabilities | <i>A, D i), ii)</i> | \$ 2,776 | \$ 3,093 | \$ 4,245 | \$ 4,530 |
| Long-Term Debt | | 7,129 | 7,129 | 7,568 | 7,568 |
| Other Liabilities | <i>A, D i), ii)</i> | 1,730 | 1,781 | 1,185 | 1,220 |
| Risk Management | | 8 | 8 | 42 | 42 |
| Asset Retirement Obligation | | 820 | 820 | 787 | 787 |
| Future Income Taxes | <i>E</i> | 4,230 | 213 | 3,386 | (829) |
| | | 16,693 | 13,044 | 17,213 | 13,318 |
| Share Capital | <i>C</i> | | | | |
| Common shares, no par value | | 2,319 | 2,352 | 2,360 | 2,393 |
| Outstanding: 2010 – 736.3 million shares 2009 – 751.3 million shares | | | | | |
| Paid in Surplus | | - | - | 6 | 6 |
| Retained Earnings | | 13,957 | 6,112 | 13,493 | 4,804 |
| Accumulated Other Comprehensive Income | <i>A, B, D i), ii), F, G</i> | 1,051 | 922 | 755 | 698 |
| | | 17,327 | 9,386 | 16,614 | 7,901 |
| | | \$ 34,020 | \$ 22,430 | \$ 33,827 | \$ 21,219 |

Notes to Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – U.S. GAAP

| For the years ended December 31 | 2010 | 2009 | 2008 |
|---|-------------------|-------------------|-------------------|
| Operating Activities | | | |
| Net earnings (loss) from continuing operations | \$ 2,343 | \$ (5,584) | \$ 5,365 |
| Depreciation, depletion and amortization | 2,008 | 14,630 | 5,790 |
| Future income taxes | 1,189 | (5,177) | 1,028 |
| Unrealized (gain) loss on risk management | (945) | 2,680 | (2,729) |
| Unrealized foreign exchange (gain) loss | (313) | (359) | 417 |
| Accretion of asset retirement obligation | 46 | 71 | 77 |
| (Gain) loss on divestitures | 2 | 2 | (141) |
| Other | 109 | 320 | (8) |
| Cash flow from discontinued operations | - | 149 | (441) |
| Net change in other assets and liabilities | (84) | 23 | (254) |
| Net change in non-cash working capital from continuing operations | (1,990) | 18 | (1,353) |
| Net change in non-cash working capital from discontinued operations | - | 1,100 | 1,210 |
| Cash From Operating Activities | \$ 2,365 | \$ 7,873 | \$ 8,961 |
| Cash (Used in) Investing Activities | \$ (4,729) | \$ (4,806) | \$ (7,517) |
| Cash From (Used in) Financing Activities | \$ (1,284) | \$ 835 | \$ (1,439) |

Notes:

A) DERIVATIVE INSTRUMENTS AND HEDGING

On January 1, 2004, the Company implemented under Canadian GAAP, EIC 128 “Accounting For Trading, Speculative or Non-Hedging Derivative Financial Instruments”, which requires derivatives not designated as hedges to be recorded in the balance sheet as either assets or liabilities at their fair value. Changes in the derivative’s fair value are recognized in current period earnings. Under the transitional rules, any gain or loss at the implementation date is deferred and recognized into revenue once realized. Currently, Management has not designated any of the financial instruments as hedges.

The Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards for derivatives and hedging effective January 1, 2001. The standard requires that all derivatives be recorded in the balance sheet as either assets or liabilities at their fair value. Changes in the derivative’s fair value are recognized in current period earnings unless specific hedge accounting criteria are met. Management has currently not designated any of the financial instruments as hedges for U.S. GAAP purposes. Any gain or loss on implementation of this U.S. GAAP standard was recorded in OCI. These transitional amounts are recognized into net earnings as the positions are realized.

Unrealized gain (loss) on derivatives relates to:

| For the years ended December 31 | 2010 | 2009 | 2008 |
|---|---------------|-------------------|-----------------|
| Commodity Prices (Revenues, net of royalties) | \$ 947 | \$ (2,640) | \$ 2,717 |
| Operating Expenses and Other | (2) | (40) | 12 |
| Interest and Currency Swaps (Interest, net) | - | - | (3) |
| Total Unrealized Gain (Loss) | \$ 945 | \$ (2,680) | \$ 2,726 |
| Amounts Allocated to Continuing Operations | \$ 945 | \$ (2,680) | \$ 2,726 |
| Amounts Allocated to Discontinued Operations | - | - | - |
| | \$ 945 | \$ (2,680) | \$ 2,726 |

In 2008, the remaining balance that was related to the transitional amounts in AOCI was recognized in net earnings for U.S. GAAP.

Notes to Consolidated Financial Statements

B) FULL COST ACCOUNTING

Under U.S. GAAP, a ceiling test is applied to ensure the unamortized capitalized costs in each cost centre do not exceed the sum, net of applicable income taxes, of the present value, discounted at 10 percent, of the estimated future net revenues calculated on the basis of estimated value of future production from proved reserves using an average price based upon the prior 12-month period, less related unescalated estimated future development and production costs, plus unimpaired unproved property costs.

Under Canadian GAAP, a similar ceiling test calculation is performed with the exception that cash flows from proved reserves are undiscounted and utilize forecast pricing and future development and production costs to determine whether impairment exists. The impairment amount is measured using the fair value of proved and probable reserves. Depletion charges under Canadian GAAP are also calculated by reference to proved reserves estimated using estimated future prices and costs.

At December 31, 2009, the Company's capitalized costs of oil and gas properties exceeded the full cost ceiling resulting in a non-cash U.S. GAAP write-down of \$11.1 billion charged to depreciation, depletion and amortization (\$7.6 billion after-tax). This write-down included \$6.3 billion from properties in the United States (\$4.0 billion after-tax) (2008 – \$1.8 billion charged to depreciation, depletion and amortization; \$1.1 billion after-tax) and \$4.8 billion from properties in Canada (\$3.6 billion after-tax) (2008 – nil). Additional depletion was also recorded in 2001, and certain prior years, as a result of the ceiling test difference between Canadian GAAP and U.S. GAAP. As a result, the depletion base of unamortized capitalized costs is less for U.S. GAAP purposes.

The U.S. GAAP adjustment for the difference in depletion calculations results in an impact to depreciation, depletion and amortization charges and foreign currency translation adjustment of a \$1,235.8 million decrease and a \$11.1 million increase, respectively (2009 – \$171.8 million decrease and \$0.5 million decrease; 2008 – \$13.3 million decrease and \$0.8 million increase).

C) STOCK-BASED COMPENSATION – CPL REORGANIZATION

U.S. GAAP requires that compensation expense must be recorded if the intrinsic value of the stock options is not exactly the same immediately before and after an equity restructuring. As part of the corporate reorganization of Canadian Pacific Limited (“CPL”), an equity restructuring occurred that resulted in CPL stock options being replaced with stock options granted by Encana. This resulted in the replacement options having a different intrinsic value after the restructuring than prior to the restructuring. Canadian GAAP does not require revaluation of these options.

D) COMPENSATION PLANS

i) Pensions and Other Post-Employment Benefits

For the year ended December 31, 2006, the Company adopted, for U.S. GAAP purposes, the standard for retirement benefits. The standard requires Encana to recognize the over-funded or under-funded status of defined benefit and post-employment plans on the balance sheet as an asset or liability and to recognize changes in the funded status through OCI. Canadian GAAP does not require the Company to recognize the funded status of these plans on its balance sheet.

ii) Liability-Based Stock Compensation Plans

Under Canadian GAAP, obligations for liability-based stock compensation plans are recorded using the intrinsic-value method of accounting. For U.S. GAAP purposes, the Company adopted the standard for stock compensation for the year ended December 31, 2006 using the modified-prospective approach. Under the standard, the intrinsic-value method of accounting for liability-based stock compensation plans is no longer an alternative. Liability-based stock compensation plans, including tandem share appreciation rights, performance tandem share appreciation rights, share appreciation rights, performance share appreciation rights, performance share units, and

Notes to Consolidated Financial Statements

deferred share units, are required to be re-measured at fair value at each reporting period up until the settlement date.

To the extent compensation cost relates to employees directly involved in natural gas and crude oil exploration and development activities, such amounts are capitalized to property, plant and equipment. Amounts not capitalized are recognized as administrative expenses or operating expenses. The current period adjustments have the following impact:

- Net capital assets increased by \$4.0 million (2009 – \$56.4 million decrease)
- Current liabilities increased by \$16.9 million (2009 – \$76.7 million decrease)
- Other liabilities decreased by \$0.7 million (2009 – \$3.2 million increase)
- Other comprehensive income decreased by \$0.3 million (2009 – \$3.2 million decrease)
- Operating expenses increased by \$6.8 million (2009 – \$31.5 million decrease)
- Administrative expenses increased by \$3.4 million (2009 – \$21.8 million decrease)
- Depreciation, depletion and amortization expenses increased by \$1.7 million (2009 – \$0.8 million decrease)

E) INCOME TAXES

The following differences result from the future income tax adjustments included in the Reconciliation of Net Earnings under Canadian GAAP to U.S. GAAP and the Condensed Consolidated Balance Sheet which include the effect of such rate differences, if any, as well as the tax effect of the other reconciling items noted.

The following table provides a reconciliation of the statutory rate to the actual tax rate:

| For the years ended December 31 | 2010 | 2009 | 2008 |
|--|----------|------------|----------|
| Net Earnings (Loss) Before Income Tax – U.S. GAAP | \$ 3,319 | \$ (8,853) | \$ 7,390 |
| Canadian Statutory Rate | 28.2% | 29.2% | 29.7% |
| Expected Income Tax | 936 | (2,585) | 2,191 |
| Effect on Taxes Resulting from: | | | |
| Statutory and other rate differences | 101 | (389) | 15 |
| Effect of tax rate changes | 13 | - | - |
| International financing | (78) | (101) | (268) |
| Foreign exchange (gains) losses not included in net earnings | 6 | 20 | 47 |
| Non-taxable capital (gains) losses | (38) | (71) | 84 |
| Other | 36 | (143) | (44) |
| Income Tax – U.S. GAAP | \$ 976 | \$ (3,269) | \$ 2,025 |
| Effective Tax Rate | 29.4 % | 36.9% | 27.4% |

The net future income tax liability is comprised of:

| As at December 31 | 2010 | 2009 |
|---|--------|----------|
| Future Tax Liabilities | | |
| Property, plant and equipment in excess of tax values | \$ 77 | \$ - |
| Timing of partnership items | - | 78 |
| Risk management | 374 | 75 |
| Future Tax Assets | | |
| Tax values of property, plant and equipment in excess of carrying amounts | - | (802) |
| Non-capital and net operating losses carried forward | (285) | (174) |
| Other | 47 | (6) |
| Net Future Income Tax Liability | \$ 213 | \$ (829) |

F) OTHER COMPREHENSIVE INCOME

The U.S. GAAP standard for retirement benefits requires the funded status of defined benefit and post-employment plans to be presented on the balance sheet and changes in the funded status be recorded through comprehensive income. In 2010, a loss of \$2.1 million, net of tax, was recognized in OCI (2009 – \$12.5 million

Notes to Consolidated Financial Statements

gain, net of tax, as noted in D i). On adoption of the standard, as required, the transitional amount of \$48 million, net of tax was booked directly to AOCI.

The foreign currency translation adjustment includes the effect of the accumulated U.S. GAAP differences.

G) FOREIGN CURRENCY TRANSLATION

In 2010, in accordance with Canadian GAAP, the Company recognized a foreign exchange loss arising from the translation of an intercompany transaction that reduced the Company's net investment in a self-sustaining foreign operation. Under U.S. GAAP, intra-entity foreign currency transactions that are of a long-term investment nature between entities that are consolidated in the Company's financial statements are not included in determining net earnings but reported as translation adjustments. Accordingly, net earnings under U.S. GAAP increased by \$35 million (2009 - \$128 million) with a corresponding decrease to foreign currency translation.

H) CURRENT ASSETS

In 2009, the Company reversed an impairment of inventory previously recorded in 2008 under Canadian GAAP. U.S. GAAP does not permit the reversal of inventory impairments. Accordingly, net earnings before income tax under U.S. GAAP decreased by \$47 million with a corresponding decrease to the inventory balance.

I) CONSOLIDATED STATEMENT OF CASH FLOWS

Certain items presented as investing or financing activities under Canadian GAAP are required to be presented as operating activities under U.S. GAAP. Cash tax on sale of assets presented as investing activities under Canadian GAAP is presented as operating activities under U.S. GAAP.

J) DIVIDENDS DECLARED ON COMMON STOCK

| For the years ended December 31 | 2010 | 2009 | 2008 |
|---------------------------------|---------|---------|---------|
| Dividends per share | \$ 0.80 | \$ 1.40 | \$ 1.60 |